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ECONOMIC TRENDS IN EAST ASIA

The annual meeting of ECAFE (the United Nations Economic Commission for Asia and the Far East) is to be held in the latter part of March at Bangkok, immediately preceded by the sessions of its Committee on Industry and Trade. The date is historic, as it marks the tenth anniversary of the establishment of this special Regional Commission of the United Nations, the first headquarters of which were at Shanghai.

The Region—rather oddly called, in the United Nations title, "Asia and the Far East"—has meanwhile gone through a full phase of postwar rehabilitation and reconstruction, and entered an entirely new era of planned (or at least planful) economic development. Ten years ago, there was little specific, well-ordered, accurate or usable economic information, from the point of view of detailed planning or policy-formation, about the affairs of the Region. Excellent work by the U.N. Commission and its member-states has now radically transformed the situation, in that and other respects. The forthcoming meetings are provided with very full information, appropriate to discussion on the highest technical and practical levels.

There is a distinct upswing in the Region at present. Over 1956 there was a considerable increase in activity, and definite progress, along lines already set and becoming increasingly clear; which was surprisingly little affected by the Suez crisis in the latter part of the year, in the immediate instance, though some adverse effects appeared later.

1956 was a very good crop year in Asia; even a record one, in some countries. The division between the food-surplus and food-deficit countries of the Region is however becoming sharper, in some respects. The increased production of rice by Burma and Thailand is far from representing "over-production", being eagerly and easily taken up by the Asian rice-importing countries. (Burma makes, in addition, barter-trade sales of rice outside the Region). Some countries are still glad to receive agricultural surpluses from the U.S.A. And in countries where the crop was not so good (India and Pakistan and Indonesia) food prices continued distinctly to rise. So far from the food problem being solved, on the background of gigantic increases of population, present and prospective, there is increasing awareness of it in Asia, and most countries are giving more, not less, real priority to increasing their home agricultural production.

The trend of food-prices to rise is only one part of the inflationary tendencies or pressures, which—despite increasing production, investment and activity generally—are sufficient to cause distinct concern. Various aspects of this have to be considered.

The trade of the Region increased very much in the first 9 months of 1956 (the Suez crisis affected the subsequent period adversely, for the Sterling Area countries especially), while production in the Region was also increasing. Taking 1953 as 100, imports and exports for the Region as a whole were about 125 in value and 130 in quantity, at mid-1956. But the terms of trade (the relation between export and import prices) is generally slightly less favourable than in 1953 (and much less so than in the Korean-War boom), so that the results are much less favourable from

the point of view of the earnings from this increased trade.

The balance of trade occasions similar dissatisfaction or anxiety. Imports tend to rise faster than exports. In the first nine months of 1956, exports of the Region were 6% higher in value than in the corresponding period of 1955; but imports were 20% higher. Most of the countries—now heavily engaged in plans for development and industrialization—place an increasingly heavy stress on the import of machinery and capital goods. Total figures for the Region tend to conceal different sorts of unevenness. For example, the export earnings of the whole group, during the first three quarters of 1956, increased by over US$500 million, or more than 5%, over the same period of 1955. But only four countries—Hongkong, Japan, Malaya and the Philippines—earned more. The export earnings of the ten other countries of the Region were actually less than in the corresponding period of 1955. And of the above-mentioned half a billion dollars, nearly three-quarters was taken by one country—Japan. The total trade deficit of the Region in fact rose from about the equivalent of a quarter of a billion American dollars in the first nine months of 1955 to about one billion in the corresponding months of 1956; all the countries (except Taiwan, Pakistan and South Vietnam) strongly increased their imports.

Countries, in South-East Asia particularly, which depend for most of their export earnings on certain primary products—food, agricultural raw materials or minerals—are still very vulnerable. And the market fluctuations for these goods are large and rapid. For example, in 1955—though the situation was very uneven, some of the commodities in this group showing declines while others showed rises—export earnings of eight primary products of the Region increased about 15% over 1954; whereas in the first half of 1956 they declined between 4 and 5%, as compared to the first half of 1955. When such countries are committed to plans and programmes dependent on the import of machinery or capital goods, such vulnerability or uncertainty is an extremely serious matter for them.

This relative shift in the composition of imports is quite general in the Region. The proportion of consumer goods, and materials intended for the production of consumer goods, in the total imports of the Region, is calculated by ECAFE to have been about 71% in 1954, 69% in 1955, and 64% in the first half of 1956—the share of capital goods thus rising from about 29% to about 36%.

It is interesting to note in this context that the five-year plan of Japan (1956-61) while mainly aiming at national self-support and full employment, envisages considerable increases not only in domestic food supply but in heavy industry (actually the projected *increase* in the heavy industry capacity of Japan is larger than the total *installed capacity* of heavy industry planned for 1960 in Communist China!), and an actual decrease in cotton textiles, of which Japan thus expects to be producing slightly less, not more, in 1961 than in 1956. The question may arise how far Hongkong may become a "residual legatee" of a light-industrial field in which Japan and Manchester are apparently declining; or how far we would be better advised to try to qualify ourselves to enter more into the higher-grade commodity fields, in respect both of our entrepot and manufacturing functions.

The main causes of the inflationary tendency, which is thus very marked, are however of another, intrinsic, kind. For the reasons given above, foreign trade factors did not account for the expansionary effects, particularly on the demand side, which are so marked a current feature. Government expenditure was generally very much more the reason. The governments of the Region are spending large amounts, especially under "development planning" heads, and also more and more under "social welfare" heads; and such spendings are increasing.

They involve more and more deficit financing; and this is the main cause of rising effective demand in many of the Asian economies. In the "private sector", bank credit was encouraged to expand alongside the extra money supply originating in the "public sector"—and, in underdeveloped Asian countries, this was largely for private consumption or for investment purposes not of the most productive kind.

Foreign exchange balances or reserves, for most of the East Asian countries, were however meanwhile sufficient to "cushion" the effects of this, covering a rise of imports, and covering current adverse trade balances, to a considerable extent. To the extent that such "cushioning" was lacking in their case, some countries find, however, that the swelling demand, outpacing increases in output, begins to have a distinct—though not yet serious—inflationary effect.

In the case of India, for example, one half of Government expenditures was intended, in 1956-57, to be covered by budget deficit, and over one half of the consequent internal borrowing was to be met by increasing the floating debt. In the third quarter of 1956, savings and long-term loan operations brought somewhat better results than had been anticipated, offsetting this increase in the public debt, or making it seem likely that it would be less than had been expected; and a rising import surplus (partly due to foreign aid) also counterbalanced the effect of budget deficit. On the other hand, bank credit increased very much in the private sector, probably to an extent outweighing the above-mentioned factors. This is only an instance; other countries in the Region also rely to a marked extent on deficit-financing, and incur corresponding effects, according to their circumstances. In-

creased reliance on deficit financing is a general tendency in the Region, with central bank systems and policies, sometimes in some respects, being deliberately adapted to fit that tendency.

Any objective survey of the Region must note how great is the extent to which the costs, or current effects, of economic development are being met by ***ad hoc*** or temporary expedients—especially the drawing on foreign exchange balances or reserves, mostly pre-accumulated in the Korean War boom period, or the failing to build them up as they might otherwise have been built up. Equally obvious is the very great dependence of the whole structure of the Asian economy on Foreign Aid. How largely this "takes the strain" on national balances of payments, how frequently it fills actual, physical and immediate shortages of food and other commodities, how greatly economic development and industrialization plans depend on it, is all too often forgotten, in the welter of political talk and backbiting that surrounds this subject.

ECAFE records for 1956 a larger capital inflow, as aid from the United States, in the aid policy of which increased stress is placed on Africa and Asia. Our Region received 28.4% of all U.S. foreign aid in 1954, 44.8% in 1955, and 1956 returns indicate a further increase. The total U.S. economic aid to the Region (military accounts etc. completely excluded) in 1955-56 fiscal year was over US$330 million. Since this is selectively directed to the points of maximum difficulty, its effect is far more decisive than the absolute figure would indicate. To this should be added not only the various Technical Assistance, Colombo Plan and other items of the kind, but now also the substantial reparations agreements concluded by Japan with the Philippines and Burma (similar negotiations proceeding with Indonesia and Vietnam), aid and credits by the Soviet Union to Afghanistan, India and Indonesia for specific projects, and by Communist China to Cambodia and Nepal (on a comparatively small scale).

About one-third of the Region's trade is within the Region itself. The rest is fairly evenly divided, as about 25% with Western Europe, nearly 20% with the United States, and some 18% with the rest of the world. The shares of both Western Europe and North America appear to have declined very slightly, in the most recent period. But it is a matter of the odd 1% or so either way, of the relative shares. This may be largely due to expansion of Communist Chinese and East European or Russian trade in the Region. Much is heard of this, but the real proportions are shown by the following data. In 1955, Mainland China and the Communist countries of East Europe furnished 2.7% of the Region's total imports; the proportion rose to 4.8% in the first half of 1956. But total exports to these Communist countries fell, in the same period, from 5.1% to 3.1%.

This account has perhaps left the largest and most significant feature to the end. Namely, the increasingly complete and rapid turnover of practically all the countries of the Region to Planned Economy. This is of various kinds, and has quite a range of different motives or emphases, which it is not possible to review or analyse in any detail, short of writing volumes on the subject. ECAFE rather neatly classifies the national plans by their main objectives; or, we may say in modern sociological jargon, "motivations". These would appear to be such as the following (not necessarily in that order of preference or priority). (1) increased self-sufficiency, in food or other respects, (2) rapid industrialization, (3) full employment of present and future populations, (4) development of basic economic and social facilities, (5) independence from foreign aid (gifts or technical assistance), (6) socialism (greater equality in income and wealth, or greater State control), (7) stability, and (8) other economic, social and political aims.

Countries may stress more than one of the above general aims, in varying orders of priority. Thus we could tabulate: India (2), (3), (6); Japan (1), (3); Communist China (2), (6); Taiwan (7), (5); and so on. Interesting also is the sharp division, in plans, between the countries which foster mainly State control, initiative and responsibility, and propose to extend the State sector; and those which, on the contrary, propose that the private enterprise sector should be dominant or increased. Communist China is of course set to eliminate the private sector; and India to reduce its relative share considerably (but only relatively—in absolute terms, it should be noted, there is actually to be more private enterprise and investment at the end of India's Second Five-Year than at its beginning. Taiwan, the Philippines, South Korea and Japan plan, on the contrary, an increase in the relative weight of the private sector.

From more technical points of view, the plans are even more divergent in their form and nature. But the trend towards Planning is overwhelmingly general and rapid. The laissez-faire outlook of Hongkong is now quite distinctive, against this background.

An excellent, comprehensive, and technically very competent account of all these matters is given in the annual "Economic Survey of Asia and the Far East" for 1956, published by ECAFE. This is a unique and invaluable work, essential for anyone who wishes to have a full understanding of the working and tendencies of the Asian economy. It is printed, by the way, in Hongkong.

Considering the difficulties of layout and presentation of such a wide and many-sided survey, the need to use only official styles of presentation, and other conditions, perfection is hardly attainable in such an undertaking, and criticism has many openings; but year by year this publication has shown improvements; and the U.N. Commission is accordingly to be congratulated on the level of excellence which it has now reached.

CHINA'S VAST BUREAUCRACY

The Chinese Government is now probably the largest Bureaucracy the world has ever known—even if Peking itself knows just how many *are* on its pay-roll. The officials have been going through the motions of reducing themselves in recent months, both at the Centre and in the Provinces, obviously on orders from above. One official, in a sarcastic article under the name of Tung Wen in the People's Daily, said he had often listened to reports on simplification of machinery, economy, and reduction of establishments. Each time he felt that unless these things were actually carried out the Party would be unable to stand up to face the State and the people. But after the reports were made, the situation remained the same. On the contrary, the number of departments increased and group after group of workers came from all quarters to enter the States organ with which he was connected. He gave a description of procedure reminiscent of that cited in the satire published in the London periodical The Economist some time ago on the multiplication of the bureaucratic staffs.

Since the liberation, said the writer, there seems to exist in Government organs an unwritten law, referred to as "regularization." This naturally differs from "guerilla" operations! When a matter comes up, whatever its size, the Minister passes it down to the Director of a department or a bureau; the department director passes it down to the head of an Office; the head of an Office passes it down to a section chief; the section chief passes it down to a section member, a clerk. In this way the thing is passed down level after level and then reported back upward level after level. Months pass and it is still unfinished, or even becomes more and more confused with this passing around. Similarly, when the lower levels want some instructions from the leadership, the clerk and the section member first approach the section chief; the section chief goes to the Chief of Office, thence to the Director of Department or Bureau, and thence the Minister. It seems that if the number of levels is reduced, the personnel is reduced, and regularization is not properly achieved.

"Naturally, not all cadres are willing to follow this method of operation, but since there are people, they must have work; since there is work, there must be a system; and while in the beginning one may not get used to the system, as time goes on, one becomes gradually reconciled to it, and does not feel embarrassed at all! Some people consider that with new tasks to handle, work becomes more numerous and leadership has to be strengthened. The only method of strengthening leadership appears to be the expansion of structures, the increase of cadres. Although we do not oppose this unreservedly, the question is whether or not the structures can be a little smaller, the number of levels less, and personnel reduced, so that the organisation may promote its active role fully, and the personnel may give full play to their capabilities.

"One of the reports I heard stated that in a certain organ, personnel had been reduced from over 100 to a few scores, and the work was as well carried out as in the past. This was very persuasive. But where were the retrenched personnel sent? Did they go to the places that most lacked cadres? Did they go to the basic level units? No. When personnel are retrenched in old organs, new organs are established and the retrenched personnel from the old organs are not sufficient to staff the new organs, and large numbers of workers have still to be recruited, cadres have to be transferred from the lewer levels.

"In the movement for economy and retrenchment, there is also current one other theory. This says that retrenchment should be carried out in administrative organs, but not in enterprise units. This is not only because of the needs of the enterprise units, but also because these units earn incomes and do not constitute a burden to the State. And so in one single locality there may be maintained several film screening squads, and three full-time cadres may be employed to manage them. One retail sales department which may have a monthly turnover of two yuan may have three salesmen! Too many enterprise units become 'typhoon shelters' and 'air raid shelters.'"

Another writer refers to the colossal structure of the Ministry of Coal Industry. When it was set up in July, 1955, the personnel provided for in the establishment was 821, but actually there were more than 900. The leadership at first intended to retrench 100 of the workers, but none was in fact retrenched and later the establishment began expanding until in June, 1956, it numbered 1,035, while the number of workers actually employed was over 1,200. If the workers in subsidiary units are added, the total would be over 1,500. Were they actually needed? No. Indeed the situation of superfluous personnel with no work to do is very serious. Indeed, even the maintenance of certain bureaus and departments themselves is open to question. According to work conditions in the Ministry at present, one department would be sufficient to take charge of matters connected with capital construction. But the leadership insists on having the Capital Construction Management Department and the Capital Construction Technical Department, and the personnel for this part of the work was thus increased from 62 to 160. "I feel that the decision cannot be separated by the tendency of the leadership to seek the blind expansion of the establishment, influenced by the high tide of Socialism." The process of multiplying offices and personnel is described in intimate detail, and the writer shows how the coal ore dressing office grew from 20 to 51 persons and how other departments similarly added to their numbers. The Security Office, for example, had 18 workers last year and did the work well. But it had to increase the staff to 31, and now that the unit is larger the designation of Office no longer fits, or seems adequate, so the head of the office makes repeated requests to have it re-named a bureau! What is more, as the structure of the Ministry grows the increased personnel come from the cadres in the enterprise units under the Ministry. For the period January to October 1956 there were transferred from the basic level organs under the Ministry 33 cadres of section chief level and above. Among them were 16 heads of offices, and eight directors of bureaus. Most of these cadres were the most important comrades in the lower level units where they could play a most active role. After transfer some were dissatisfied because they had so little to do while others became depressed for the same reason.

Nor has expansion of structure and increase of personnel meant greater efficiency. There are too many people for too little work, and they soon started making all sorts of complaints. Leadership did not become more concrete

and direct. The four coal mines of Kailan, Fengfeng, Chengching and Chinghsi had originally been controlled by the Ministry directly. The mines are near Peking, and it had been convenient for them to come to Peking directly for instructions and for the solution of questions. But the leadership thought it cumbersome to assume direct leadership over the four mines, and decided to organise the Tientsin Coal Mining Control Bureau to take care of the four mines. And so when the Chinghsi coal mine had questions to solve, it must first proceed from Peking to Tientsin for instructions from the Ministry.

Still another contributor to the People's Daily named Hsiao Feng sent in a similar description of the conditions in the Finance Ministry, only this time he concentrated on the inefficiency of its work, especially in the Agricultural Tax Department, where 50% of the entire staff are of the section chief level and above. Some comrades have never been assigned any permanent task for the whole year, and only handle jobs which have come up temporarily. Some have annually to visit the rural areas, but they get through this in three months; then they spend another three months putting in order the data collected. The rest of the year is spent in attending to occasional temporary jobs, reading books, reading newspapers, and resting! As for the leadership personnel, they have their problems too. They have to come together to discuss all matters, big and small, and unanimous agreement in many cases is not often reached. The drafting of a document, for instance, calls for the spending of months on the choice of the words themselves, with each having his own view and making endless corrections. During the year, there are three documents which have been under draft for over five months, and decisions on the final drafts have still not been made.

These conditions throughout the entire bureaucracy have created such a scandal that the highest authorities had to move in the matter. The result is that all the provincial State and Party bodies have moved in the matter. They have announced the cutting of some 30% in the higher levels, but seem to be sending nearly all of them out into the rural areas where, perhaps, they will be more useful. But it hardly constitutes real retrenchment though it does sound better to announce that while upper levels are retrenched lower levels are reinforced. That, incidentally, seems to be the popular slogan among the Communist officials who are terribly addicted to cliches. In Anhwei they seem to know a good thing when they see it. Their units have colossal structures and a superfluous personnel with no work to do, so they spend their time knitting, reading and sun-basking. And a lot of those with nothing to do are university and college students assigned to jobs there!

In Kwangtung the Governor and First Secretary of the Party, Tao Chu, told the CCP Provincial Committee that retrenchment should be properly and thoroughly achieved, by cutting down 30% on the provincial organs of the Party and State organs, 20% in Canton municipality, and adequate reductions in the local organs. He said the provincial organs were huge in size and had too many levels. There were excessive personnel also in the lower levels. The purchasing bureau in Fahsien, for instance, could handle all the work with five cadres, but they had 40. He made a special point of criticising the extravagant phenomenon of living in large houses, using many motor-cars and giving many parties on the part of responsible cadres of the provincial organs. The worst of all were the Provincial Party Committee and the Provincial People's Council. But it was not long before complaints were being made that the provincial organs were still considering how to expand their establishments!

NEW CONSTITUTION FOR MALAYA

The Report of the Reid Commission, upon which the Constitution of independent Malaya will be based, has now been published. The Commission, headed by Lord Reid, a Lord of Appeal in Ordinary, set out to produce a document that would be fair to everybody, and whether they succeed in convincing all parties that they have done this, the composition of the Commission ought to carry conviction of its quite disinterested approach. In addition to Lord Reid, it consisted of Sir William McKell, formerly Governor-General of Australia and Premier of New South Wales, Mr. Justice Hamid of Pakistan, Mr. Justice Malik of India, and Sir Ivor Jennings, the Commonwealth Constitutional expert. In recommending the form which the necessary political and administrative changes should take, the Commission bore in mind that the new provisions must be both practicable in existing circumstances and fair to all sections of the community.

The Commission adopted a large number of proposals put forward by the UMNO-MCA-MIC (the Malay, Chinese, and Indian Alliance) as well as some others made by the Rulers Conference, but it did not hesitate to suggest recommendations which it had itself originated. The Commission recommends a bi-cameral Parliament made up of a House of Representatives and a Senate, with a Head of State chosen from among the nine Rulers to be known as the Yang di-Pertuan Besar. Throughout the Report, the name Malaya is used. It was represented to the Commission that the country should in future be known as Malaysia, but the Commission did not think it came within their province to consider that proposal, and therefore, while expressing no opinion on it, continued to use the word Malaya which appeared in their terms of reference.

The Commission recommends a common nationality for the whole of the Federation and adopted proposals put forward by the Alliance for the acquisition of citizenship. It recommends that the present Legislative Council carry on till new elections are held, which can hardly be before January 1959; that a greater measure of autonomy be given the States in certain fields, and that the Rulers should be bound to accept and act on the advice of their Mentris Besar, who should in future be elected. The Commission recommends that the Settlements of Penang and Malacca should cease to be parts of Her Majesty's dominions and should become autonomous States within the Federation on Merdeka Day. Governors of Penang and Malacca should be appointed by the Yang di-Pertuan Besar, and Penang and Malacca should have the same status and powers as the other States in the Federation.

The Commission's Report contains four major points which are likely to result in considerable discussion before the recommendations are accepted or modified. These are: (1) that citizens of the United Kingdom and Colonies or of other Commonwealth countries can become citizens of the Federation of Malaya without renouncing their British citizenships; (2) that nationals of foreign countries can become citizens of the Federation of Malaya without renouncing their former citizenship but that they must take an oath of allegiance to the Federation and undertake not to exercise their rights as foreign citizens; (3) that special rights enjoyed by Malays as to land reservations, permits and licences, posts in Government service, and scholarships should not be increased but should continue for a specified period of 15 years, after which they should be renewed; (4) that Islam should not be named as the State religion of the Federation but that the present position in the States religion of the Federation but that the present position in the States with regard to the recognition of Islam should continue.

The Head of State will be chosen by order of precedence from among the Rulers. His tenure of office will be five years. The Lower House of Parliament will be wholly elected and will consist of 104 members following the first election after independence and 100 thereafter. The Senate will consist of 33 members, 22 elected by members of the State legislative councils and 11 nominated by the Yang di-Pertuan Besar to represent specialised interests. Later the Senate may be wholly elected.

The Reid Commission was in Malaya for six months last year, during which it received 131 memoranda and held 118 meetings, at 31 of which it heard oral evidence. It is not an ideal solution that the five wise men of the Commission have devised. But the perfectionist approach was ruled out by a host of factors; by the problems inherent in a plural society, by the resistance of the past to the claims of the present, by the existence of uneven economic conditions, by the forced pace of political transformation, and by the very nature of the task the Commission was set. Its terms of reference contained contradictions that could only be resolved if the Commission did not adhere rigidly to established principles recognised elsewhere. The Commission was required to make recommendations for a strong central government, and at the same time provide for States rights, an issue that brought in the position and prestige of the Rulers which must be safeguarded. It was asked to write a democratically-based constitution that would also guarantee privileges for one community. It was to draft proposals for a common nationality throughout the Federation, subject, however, to the Rulers' reservation that this nationality should not be interpreted "in a strictly legal sense." Inevitably, the keynote of the Reid Report is compromise. The Commissioners "have borne in mind that the new provisions must be both practicable in existing circumstances and fair to all sections of the community." It is by this test that the Report should be judged.

The framework of the structure of government which the Commission recommends could have been foreseen. The report provides for a constitutional Yang di-Pertuan Besar, to be chosen from among the Rulers, who as Head of State, would be the symbol of the country's unity. He would choose the Prime Minister, whose advice on all executive action he must accept. He would have power to dissolve Parliament. Parliament itself would consist of a wholly elected House of Representatives of 100 members, and a Senate of 33 members, two-thirds of whom would be elected by the States, the remaining eleven to be nominated by the Yang di-Pertuan Besar. The Upper House would have power to delay legislation and initiate bills other than money bills; but the last word would lie with the Lower House. These are not contentious matters. It is the recommendations on citizenship, special Malay rights and on the question of the State religion that will command wide attention.

The Commission has adopted the Alliance proposals for citizenship almost in their entirety, not only because they are supported by the authority the Alliance commands, but because they are the best. These would confer citizenship

on all born on or after Merdeka Day. Residential qualifications for resident aliens are liberal: five years for those born in the country, and eight years for the others. The Reid proposals depart from the Alliance version only by recommending that while an oath of allegiance should be taken, there need not be renunciation of other citizenships; and also that there should be dual citizenship within the Commonwealth.

However, these are not startling recommendations, and in fact they flow naturally from the terms of reference which provide for the Commonwealth link and lay down limitations on interpretation of nationality. The Commission was instructed, by its terms of reference, "not to preclude recommendations that would allow British subjects or the Rulers' subjects to retain their status after they had acquired the proposed common nationality." Examined in this context, some of the grounds for the Commission's proposals become clear and justifiable. In the case of the Rulers' subjects, even the Alliance did not press the Rulers for a complete surrender of their position, but only "a waiving of some rights." It would be illogical if the same treatment were withheld from the British subjects of Penang and Malacca, who are entitled to the replacement of one national status by another. Yet the choice of a single Federal nationality has not been offered, for the simple reason that such a nationality would require the disappearance of State sovereignties and the loss of the Rulers' identities. The Alliance has not sought this, nor have the Malays as a community.

There are, moreover, positive arguments for the Commission's recommendations. Renunciation of other citizenships may not be effective, since there are countries that do not recognise renunciation. Instead, the Commission calls for an undertaking that in Malaya no citizen shall exercise the rights of his other citizenship. He owes undivided loyalty to the land in which he lives, and the other country of which he is also a citizen is not to come between them. Nor is this all. The Commission lays great weight on the fact that dual citizenship, as distinct from dual nationality, has long been common in international law. It exists in the Commonwealth, notably in Britain, India and Pakistan, and it is Malaya that desires to remain within the Commonwealth.

On two other lively issues, the position of the Muslim faith and the special position of the Malays, the Reid Commission's majority view also varies from that of the Alliance. It advises that the State religion should not be written into the constitution, taking its cue from the Rulers, the traditional protectors of Islam and Malay custom, who themselves prefer that the position should remain as it has always been, and have said so. As for Malay privileges, the Commission rightly observes that these have not been challenged by other communities, the MCA and MIC having joined UMNO in calling for their retention. Its recommendation that they should not be enlarged is not inconsistent with the Alliance's own proviso that Malay privileges should not result in the diminution of opportunities enjoyed at present by others.

MODERN SCIENCE AND ECONOMIC DEVELOPMENT

By Professor E. Stuart Kirby

What is really likely to decide the fate of the world—and is already threatening to render present plans and policies for economic development out of date—is the large adjustment that must soon be made between the latest progress of modern science and the pressing needs of economic development.

Publicity focusses on the prospects of atomic energy—in this case as a source of cheap and universal power for industrial and social purposes. This is of course the most spectacular, and perhaps the most generally comprehensible, of the possibilities. But much that is being talked and written about it is grossly misleading. In fact this is far from being the only line of advance which is now in question, and may not even be the most promising one. The situation cannot be understood without a full knowledge of both the technical implications in the natural sciences, on the one side, and the implications in the social sciences, on the other side; and the problem must be solved simultaneously and jointly on both these sides, which are in fact rapidly becoming interlocked as two aspects of the same question. The dangers—already serious enough in the preceding technical era, out of which we are now passing—of a lack of integration of the efforts of natural scientists (largely based on the conditions of advanced and industrialised communities) with social and economic needs (particularly those of a world, half of which is "underdeveloped") are magnified in this prospect.

"Atomic" (nuclear) power is so much discussed that it must be taken first. Throughout the following lines, we must grossly simplify complex subjects, merely to make fundamental perspectives clear. There are two lines of nuclear tinkering being followed: fusion and fission. The former (aggregation of nuclei) is what the sun does, or hydrogen bombs do. So far, only destructive prospects are in sight in this direction; we can set up these effects on the surface of the earth, but see no way yet to control or "harness" them to peaceful uses, because of the very high temperatures and pressures involved. If there are any notional possibilities in that direction, they are not going to be internationally available to engineers or others, because the subject is shrouded in ultra-political and paramilitary secrecy.

The other line, that of fission (the "splitting" of uranium etc, of which everyone has some understanding nowadays) is comparatively feasible; its processes and results can now be handled and applied. This also was wrapped in ultra-secrecy, however, until very recently, and even now there can hardly be said to be a free or easy flow of knowledge on the subject, or its application, in terms especially of costing, economic and social feasibility, and the like. Meanwhile, the Newest Industrial Revolution is delayed, in somewhat the same way as the nineteenth-century developments would have been delayed, if the work of James Watt and others had been State Secrets. We have hardly

emerged, as yet, from the realms of the hypothetical in this matter. "If atomic power"—it is said, for example—"costs 6d. per KWH, then such and such are the implications for economic development"; but we cannot yet tell what the cost schedule will really be, or under what conditions (though we are beginning to get notions, in broad terms of orders of magnitude).

Many illusions are current about the industrial application of atomic power, to underdeveloped countries especially. Some of the last words on this are with the economist and sociologist. Only a few of the many determinants can be mentioned here, just as examples. A colossal investment is required. Much preparatory work is still necessary before even a general type of breeder reactor is finalized (sometime in the next decade), let alone special types for special conditions and uses. The eventual plants will have to be very big. The minimum "critical mass" of input is very large. The economies of large-scale are not only very much greater than with present day industry; it is actually that the minimum operable size is very much larger. And these plants will have to be integrated, as large complexes, even more so than the biggest steel or chemical combines of the present day. The handling of the effluent is a colossal problem, in terms of capitalization alone.

It is doubtful whether atomic power can, in the relevant time-prospect ahead, replace other fuels for shipping—in the case of underdeveloped areas especially. Only very large and very special ships are likely to use it, in the present prospect. Much of the overhead, for all uses, is generally in the safety arrangements required at all stages; they are about ten times those of our present power facilities, in cost terms. They might foreseeably be reduced to be competitive with the latter, in the environment of Detroit, Birmingham, etc.; but hardly so in that of the underdeveloped world. Even the most advanced countries are actually contemplating using atomic power stations only in conjunction with thermal or other generating systems, i.e. as a supplement to existing grids, etc. It can almost be said that you have to be developed before you can contemplate more than a limited use of this new power.

Just one more illustration: what about the amortization and the rate of interest? The appropriate size, optional economically and otherwise, of an atomic-electric power station is in the order of 1 million to 10 million KW. The ratio of cost may be something like £200 per installed KW, compared with £80 for a thermoelectric plant with coal at £8 a ton. Then atomic power is an economic proposition at low rates of interest—up to 5 or 6%—but not at the sort of rates which are characteristic in underdeveloped countries.

In my judgement, the most likely uses of atomic power, in this context, are the relatively unspectacular ones of heating houses in cold climates, air-conditioning them in hot ones, cooking food in restaurants, etc., and providing a larger supply of water.

There are many other lines of scientific advance which—especially in combination—could, in my view, do very much more for economic development. A leading one is nutrition, the improvement of food and dietetic values, leading to better (more efficient and economic) provision for the subsistence of the human race—which is doubling its numbers in the next 80 or 90 years, at the present rate of increase. The study of food values etc. was already advanced in the nineteenth century, and is one of the leading branches of scientific work today. The improvement and better use of vegetable (plant) protein has large possibilities. Knowledge of photosynthesis is progressing greatly, pointing the way to far more thorough utilization of sunlight and plant growth than at present. Such matters as hydroponics (growing crops in water, instead of soil) are becoming increasingly known and usable.

Utilization of the resources of the waters (where photosynthesis is much more extensive and rapid than on land) is a wider possibility: the food supply could be enormously increased by the harvesting and actual cultivation of plankton, extensions of pisciculture, etc. Certain strains of yeast (torulopsis, rhodotorula gracilis) are successfully and prolifically cultivated, on waste-rubbish rather than soil, at extremely low cost. Under this heading also, the ultimate questions are for the social scientists: these possibilities involve such a revolution in food habits, tastes, etc., that everything depends on how they could be made socially acceptable.

The cultivable algae (water-plants), growing in seawater or brackish water, bridge the above-mentioned field with that of fuels: at least low-grade and substitute fuel can be produced from them, at low cost and relatively small investment.

The full use of the heat and light of the sun is a main possibility. Here again, the sea may hold larger prospects. Electric power is already being generated from the tides. Convection currents in warm seas are usable. For every kilowatt used in pumping sea water, three kilowatts of power can be obtained. (Here is another illustration of the general law that these possibilities are more open to the already developed countries: only to him that already hath a kilowatt will two more kilowatts be given). The only link missing, in the full exploitation of the possibilities of trapping and using solar radiation, is the lack of satisfactory and economical storage batteries or cells. The National Physical Laboratory of India has produced a solar cooker (with a parabolic reflector) usable by any housewife in India, which could be mass-produced for about £4. Solar energy could be used to provide air-conditioning for everyone.

The Electrical and Allied Industries Research Association of Great Britain has had in view the proposal to use large windmills, which could supply some 10% of the country's electric power needs at competitive cost—but only in the circumstances of that environment, i.e. the advanced techniques and large concentrations of consumer-demand in the U.K.

Our clothing is most irrational, uneconomic and inefficient, in fulfilling its functions of personal protection and thermal comfort. The whole matter of dress could be greatly rationalised, with materials and designs much more effective in relation to their cost, more convenient, durable, labour saving in use and maintenance, etc. The human race could easily effect tremendous economies in this respect—as much as from a corresponding revolution in dietory habits, and the like. But this meets the same kinds of obstacles as those of a change in the food pattern, mentioned above: it would require quite a social revolution to change existing habits and preferences. The film, "The Man in the White Suit", was not a fantasy, from the point of view either of its possibility, or of the behavioural reactions depicted in the story. Similar things could be said about housing and domestic facilities. It is now quite possible to have an excellent house, heated or cooled entirely, at very low cost, by the sun; but the design and other requirements would not conform fully to our tastes and accepted conventions as they are at present.

Under this heading, it should be mentioned that changes, substitution and economies of all kinds in constructional materials offer large possibilities of reducing the cost of living of the human race, and completely altering the structure of that cost. This point is of very much larger importance in respect of industrial and process uses generally. We could reduce our consumption of almost all raw materials and fuels—not least, perhaps, in the realm of metallurgy—and yet get far more out of them than we do at present.

In industry, a major advance, not merely possible but now imminent and almost unavoidable, is in the technical improvement, and reduction of cost, of transport. The efficiency of transport and communications could be increased many times. In manufacturing, automation presents possibilities as numerous and varied as the problems which accompany them. In this connection, there is no need to stress the equal immensity and complexity of the social implications; our whole ways of life and thinking, our whole scale of values, will be revolutionised by the developments already clearly in sight in this direction.

Another sphere of life in which technical efficiency could and must be enormously raised, and the ratios of investment and costs to output enormously lowered, is that of education, and all forms of technical, social and functional training. In the age of planning, automation and thermonuclear explosions, our educational concepts and forms are mainly based somewhere between those of the Ancient Greek city states and those of the French Revolution.

It is my view that the reductions in cost, increases in efficiency and enhancements of productivity, under all the headings so summarily touched on above (and several others—these are just selected examples) could add up to tremendous possibilities for the future of mankind. They could do so, even if they occurred disparately, or seriatim, each of itself; in judicious combination, their cumulative effect could be all the greater. The ultimate assessments and applications—I stress—depend as largely on the economists and social scientists (with whom I take the liberty of including business men) as on the technicians. We are largely conscious today of the need to train and maintain technicians, in due quantity and quality, but less adequately conscious of the need to see also to the supply of the other category of personnel; and even less adequately cognisant of the need to bring the two together, or even in the last analysis, to combine them, as personnel trained in both halves of the question. At present, I suppose, thousands of technicians are studying these perspectives, and hundreds of civil servants—but only scores of accountants and statisticians, and dozens of economists. Such ratios are inappropriate. And ultimately the managers will have to be qualified in all five of these types of expertise.

When we look at these technological and sociological perspectives, in the light of the great question of the division of the world into "advanced" and "underdeveloped" sectors, it seems that the dice may be loaded in future, even more than at present, in favour of the former as compared to the latter. Only the "advanced" communities can initiate, and make full use of, such developments. The gap between the two sectors looks like widening, rather than closing, and becoming harder rather than easier to bridge. So far from being a solvent of present differences, conflicts, or mistrusts, the new technological perspectives may raise new bogeys of "Imperialism", "the haves versus the have-nots", etc.; or at least new and more alarming stresses in human relationships.

These gigantic physical or material changes imply colossal social and ideological transformations or readjustments. It is costing enough agony, at present, to the underdeveloped world to adapt itself to the norms of our own contemporary industrialism; how much greater will be the problems of adjustment to the norms of such a futurity as has been sketched above.

Naive belief in the possibilities of atomic power, in particular, may be somewhat dangerously illusory. It is beginning to be regarded as a God out of the Machine, or a panacea, a short-cut solution. This is somewhat reminiscent of the worship, in our own epoch, of Heavy Industry and the giant plant, so much propagated by Communism, and followed also by nationalism. But there are all the other possibilities touched on above. Just as in the instance of Heavy Industry in our own time, these are less spectacular or less publicised, but may in sum be more real and more promising, in a business-like judgement, for Development calculations especially.

THE HISTORY OF CHINESE PAPER MONEY

By E. KANN

SECTION I: ANCIENT CHINESE PAPER MONEY. PART TWO

POSTERIOR CHOU DYNASTY'S PAPER MONEY

In the era following the T'ang dynasty there was much confusion in the domain of currency. But similar conditions prevailed in every other branch of the country's administration. The commanding generals of the period extending from A.D. 907-969, which is known as the Five-Dynasties epoch, were fighting each other, and the country was lacerated by internecine strife.

Within the period of 53 years five different imperial families ruled over China; two of these were of Tartar origin. In those times of commotion and bloodshed the monetary history of the country was confined to the abolition of the existing and the introduction of all sorts of restrictive measures, which were both thoughtless and tyrannical.* In A.D. 938 the people were allowed to cast their own bronze money. This resulted in lack of uniformity and in wilful debasement, causing the state to prohibit in A.D. 940 the casting of cash coins. Good money flowed out of the country, while adultered coins remained. Due to lack of copper supplies recourse had to be taken to produce iron coins which attained a high volume of circulation.

The Five Dynasties consisted of the Posterior Liang, T'ang, Tsin, Han and Chou. It appears that only the Posterior Chous emitted paper notes. Two rulers were responsible for such issues, namely:

Emperor Tai-tsu (A.D. 951-953), who ruled under the style of Kuang-shun. Some such notes were actually discovered, but in such poor state that a portion could no more be decyphered. They were printed on bluish paper and had the size of 11 x 22 cm. These notes all called for silver taels and existed in 10 denominations, viz., from 10 to 100 taels. While adornments and marks are defaced so as not to be decypherable, the inscriptions are readable. Above: Great Chou General Circulation Treasury Note. On the right in seal script: To be current under the heavens. And to the left: For the convenient use of the people. In the lower half is found a legend, the phraseology of which is very similar to the usual run. Two seals were affixed to the face of the notes.

Emperor Shih-tsung (A.D. 954-959), whose era was known as Hsien-te. Printed on bluish paper, the notes' dimensions were also 11 x 22 cm. There were ten values, from 1 to 10 taels. In the upper panel: Great Chou General Circulation Treasury Note. In the right and left hand borders, respectively, are found the words: To be circulated as cash, and: Not to be used without authority. The border is filled with floral designs and, in certain cases, with dragons. The reverse of the notes shows a horse and a man, as well as two Chinese ideograms "Ping An", signifying 'Peace'. The usual pair of seals is to be found on the face of the notes, but instead of in red they appear in yellow pigment with sizing. Inscriptions are similar to those described in the foregoing specimen, but the illustrations divulge silver ingots of a shape that differs from those shown hitherto. The legend filling the lower half of the notes is similar to the preceding legends, but for the first time one reads here "designs this note to represent . . . . taels in official silver, which value cannot be altered."

It is significant that the outstanding sinologue H.B. Morse, when dealing with paper notes of olden times, does not make mention of fiat money emitted by anyone of the five dynasties.

* See "On Chinese Currency" by Dr. W. Vissering, Leyden, 1877, fol. 126.

NORTHERN SUNG DYNASTY'S NOTE EMISSIONS

The Northern Sung dynasty covered the period from A.D. 960 to 1126. At that time copper and iron money circulated side by side. Until A.D. 1006 copper cash were produced in four and iron cash in three mints. The annual production of copper cash fluctuated between A.D. 995 and 1021 from 800,000,000 to 1,830,000,000 cash. The output per year of iron cash averaged 210,000,000 cash. Seeing that 1,000 iron cash weighed 12 catties (kin), it will be understood that it was most inconvenient to have large quantities of iron cash in circulation. The volume of metallic money soon proved insufficient for actual needs, so that further mints had to be opened. By A.D. 1080 the country owned 26 coinage plants, of which 17 cast 88,822,348,000 iron cash annually. Iron cash circulated only in the four western provinces, which are represented as near as possible by present-day Szechuen. Besides, iron money also was in traffic in western Shen and Hutung; in the remaining 13 provinces only copper money was acceptable.

In spite of augmented means of circulation, the latter soon proved insufficient for Government's needs. Diverse attempts were made to obviate the tightness in the money market. But almost all these failed and brought about further confusion and inflation. Finally, the Government had recourse to the emission of paper money based upon the example of the T'angs. Originally, these notes were meant to act as evidence of transfer; gradually they developed into state notes covered by metallic reserves, but finally, when the reserves were misused, they became paper money pure and simple.** In A.D. 997 the volume of such notes outstanding aggregated 1,700,000 strings (*tiao*) of cash; and, in A.D. 1017 it aggregated 2,930,000 strings.†

During the Sung dynasty the use of deposit certificates rose commensurate with the growth of the credit system. At that time the receipts were styled *Bien Tsien*, denoting: "Convenient Money". This latter had the analogous functions as "Flying Money" of the T'ang dynasty. In A.D. 970 a special Central Administration Office was inaugurated for the issue of "Convenient Money", which became available there against a fee rarely exceeding 3%. Those deposit receipts showed a steady growth, and in A.D. 997 their circulation aggregated 1.70 million kwan. Twenty-four years thereafter the issue rose by 1.13 million kwan. Aside from these deposit receipts private money shops also issued such; and, furthermore, salt and tea certificates equally found use in the financing of commercial transactions. In Szechuen, where heavy iron coins were in use, the issue of paper money by private money firms became

** See "Die Form bankmaessiger Transaktionen im innern chinesischen Verkehr", by Dr. Ku Sui-lu.

† See "The Trade and Administration of China, by H. B. Morse, fol. 132.

popular. These notes went into traffic under the designation of *giau-dze*.

As repeatedly stated here, it is somewhat di..icult to determine with exactitude when paper money was first printed in China. But it is certain that in A.D. 1004 there were *giau-dze* in circulation, emanating from private sources. These may already be considered as banknotes, though not of government origin. Their use extended rapidly, not merely in their place of issue, but equally in other cities. Gradually the issuers united in the form of a banking association which latter arranged that the *giau-dze* should be printed on uniform paper. The denomination invariably was inserted in handwriting, so that there were no notes with clearly specified denominations, depending on the sum paid in. When redeeming such paper money, the holder had to pay a fee of 30 cash per kwan, similar to the erstwhile deposit receipts.‡

Gradually an organization was built up for the handling of privately-issued *Giau-dze*, until finally 16 large firms in I-dshou (Szechuen) obtained the privilege of note-emission from the provincial authorities under fixed regulations. It was resolved that (1) the denominational value of *giau-dze* would invariably be one kwan (i.e. 1,000 cash). Thereby one could prevent the alteration of the inscribed sum which forgers might secretly attempt. Furthermore, the validity of each note was fixed at three years, so as to prevent the excessive wear of the notes. Old worn notes were exchanged against new ones. In this manner noteworthy progress was accomplished in the establishment of paper money.

Soon the influence of the issuing parties grew considerably; they bought land and houses. When the silk season approached, or when the grain crops neared, they emitted new paper, with which they purchased silk or grain for storage in their warehouses. However, at the same time, cases arose that notes were not promptly, or else not entirely, redeemed when presented. Sometimes only 700 or 800 cash was offered per kwan of 1,000 cash. As a consequence, runs occurred and legal disputes arose. The prefectural official therefore asked the chief of the issuing guild in I-dshou to close the issuing places and redeem all notes.

The abolition of the privately issued paper money had derogatory effects upon the market, since iron money was too heavy to serve as medium of payment in large transactions. As a result of consultations amongst government officials it was finally decided to continue the emission of notes on a system hitherto employed by the I-dshou (the modern Chengtu) guild. This means that the *giau-dze* notes were, in February 1024, placed into circulation for the first time as government notes. Like their precursors they were printed in black and red, showing various patterns; fees charged, as well as the validity of the notes, were identical with the former private emissions. Some minor alterations were instituted: (1) the limitation of the period of redemption to three years on 1,256,340 kwan; (2) the notes were covered by the earmarking of metallic money to the extent of 34% of the issue; the rule of single denominations was exchanged for values denominated from 10 kwan to 500 cash; (4) paper money now became legal tender and could no more be handled by private parties. In about 1070 decrees were published against the use of forged paper money. In A.D. 1104 a new criminal law was promulgated, according to which also people knowing about the concoction of forged paper money and neglecting to appraise the authorities thereof, as well as those who knowingly spread forgeries, would be punished.

‡ See "Die Geschichte des chinesischen Geldes" by Liao Bao-seing, in "Sinica" 1941, Vol. 1-6.

In A.D. 1072 the 22nd border circulation for *giau-dze* was reached. As the state required large sums for its financial needs, the issuing centers could no more fulfil their promise to redeem at due date. Therefore not all the notes coul' be exchanged, but instead had to be used also during the ‿oming period of circulation. Government ordered the emission for the 25th period of circulation of additiona' notes to the extent of 1.25 million kwan for the purpose of withdrawing the issue of the 23rd redemption period. Since that time there existed two issues of paper money, circulating side by side.

The double quantity of fiat money in traffic, coupled with decreasing ratios of metallic reserves held, soon caused inflation which was enhanced through speculation amongst merchants. For the purpose of acquiring grain and for procuring military expenses in the province of Shensi further emissions of notes were resorted to, so that the *giau-dze* notes in A.D. 1094 had increased in Szechuen by 150,000 kwan; thus altogether 1,406,340 kwan came into circulation. From then onward the issue of paper money grew steadily. Therefore an office of control was established in A.D. 1104 under emperor Hui Dzung, charged with the supervision of paper money.

From the first year of Ta Guan (A.D. 1107) paper notes in Szechuen were termed *Tsien-yin*. Since the Government was engaged in the west in large scale military operations, it was forced to finance its wars by means of enhanced issues of fiat money. Compared with A.D. 1030 the volume of paper out had now risen to a twentyfold quantity. The inflationary development through paper money was felt in the market, and especially at the juncture of the exchange period, because then four old certificates had to be exchanged for a new note. As the authorities gradually showed themselves unable to provide adequate metallic reserves, the value of the notes continued to decline further and further: at first to the ratio of 1 kwan equalling 100 cash, and later on only 10 cash. Under emperor Hui Dzung (1119-1125) a sort of stabilization was undertaken.

Before proceeding further, let us revert to the description of the first northern Sung notes. Although history does not record the issue under emperor Tai-tsu (A.D. 960—975), known as the Chien-lung era, two kinds of notes, large and small, have been discovered. On the top of each, written horizontally, appears the inscription "Great Sung General Circulation Treasury Note." On the right and left borders, respectively, in ancient archaic script "To be current under the heavens", and "For the convenient use of the people". The second horizontal line indicates the value (of only two denominations), namely 50 and 100 kwan. Paper is blue; size 19 x 37 cm. In the lower panel the following inscription is found in Chinese: "The Board of Revenue, having received the imperial decree, prints and issues under the heavens the Great Sung Treasury Note, to be used as cash. The counterfeiter shall be decapitated summarily. The first informant shall be given 400 taels in silver. Chien Lung. . . . year. . . . month. . . . day emitted." The marks on the 50-kwan note consist of seven shoes of silver, while that on the 100 kwan note depicts 14 silver shoes. The reward offered for tracing counterfeiters is equal on both notes.

Merchants who had to make payments in provincial towns and who found it too inconvenient to carry along copper and heavy iron money, were offered the opportunity to obtain a transfer on paper (the aforementioned notes), which were styled "Convenient Money", and also "Changelings". Merchants requiring such paper money had to apply to the Treasury and deposit the metallic money there. For the convenience they had to pay a commission of 2%. In A.D. 970 the emperor inaugurated a

special Bureau for such transactions. The redemption of those notes in the provinces was regulated by law. Officials were severely punished when attempting to honor such transfers under discount. By means of such checks (government notes) payments for 1,700,000,000 cash were effected in A.D. 997, while in A.D. 1021 over 2,830,000,000 cash were paid out.*

As pointed out already, while there was paper money in circulation in the beginning of the 9th century, those government issues could not be termed banknotes. Even before that period, another kind of paper money appears to have been in use in ancient China, resembling bills of lading, dock warrants, etc. In other words, documents conferring authority to receive a certain quantity of government-controlled products, as salt, iron, tea, alum, etc. Those notes were transferable and enjoyed much credit amongst the people. When those bills finally reached merchants who dealt in some of the products referred to, they were realized in government granaries and thus redeemed. The appearance of "Flying Money" for any sum required was deemed a great advance. Gradually this resulted in the replacement of the produce receipts by notes calling for a specified sum of money.

It is interesting to learn that—at least during these remote times—it was not accepted for granted that a paper note should be redeemable at any time. From almost the beginning notes could be exchanged for specie at prescribed intervals. Originally, a period of three years was adopted. The first series of bills was emitted for 65 years, and every three years there would be a fixed time at which holders could demand specie payment for their notes.† Beginning from A.D. 1011, and ending in 1076, there were 25 terms of redemption in the course of the 65-years period.

The heavy demands made by the maintenance of the army forced the authorities to use funds held for the purpose of metallic reserves against notes emitted. When the final term of redemption arrived in A.D. 1076, the Government was unable to make good its pledge. Another interesting point is to be recorded: In A.D. 1068 forgeries of government notes were detected, a fact which brought about new laws, in terms of which such offences should be punishable in accordance with the existing law relative to forgery of state seals.

When in A.D. 1072 the fifth term for the redemption of *giau-dze* had arrived, there being still a great many notes in circulation (due for redemption in the last interval), an order was issued to produce another series of such notes for a face amount of altogether 1,250,000 strings, in order to redeem with them the *giau-dze* notes still outstanding. In this manner there were two distinct series in circulation; and while the second series was meant for redemption of the balance of the first, the paying-off was in reality not carried through.

Strictly speaking, the issue of notes styled *giau-dze* in the beginning of the 11th century might be considered the first emission of banknotes in China or anywhere in the world. In contradistinction to the former government notes they were not issued in exchange for a specified sum of money deposited by individuals, but in form of a note issued against total metallic sums received. There was real need in the province of Szechuen for such a procedure, as the iron money (introduced there since B.C. 10) was too heavy for extensive use. In order to obviate the inconvenience, a governor of Szechuen by the name of Chang Yung induced 16 wealthy merchants to unite into a guild for the purpose of issuing these notes. Though they became payable three years after issue, they were exchanged against notes of the new issue. This was to be repeated in 22 intervals, and only after 65 years was redemption in metal supposed to be effected. In about A.D. 1020 the guild merchants were forced into bankruptcy, whereupon the state had to take over the issue and its future management.

In A.D. 1073 notes circulating in Szechuen Province amounted to 3,006,310 strings, each being valued at 1,000 cash, or one silver tael. In A.D. 1107 a third issue for altogether 25,000,000 strings made its appearance, nominally redeemable in 43 intervals. Compared with 50 years previous, the circulation of notes now was twentyfold. Although the newly issued series were meant to replace the old ones, the depreciation of the entire issue was so rapid and persistent that both had to be retained. Gradually the redemption dates were ignored, and the total in traffic was mounting from year to year, due to additional emissions. In the year 1107, due to heavy military expenditure, northern Sung notes outstanding aggregated 26,852,006 strings. In the same year the name *giau-dze* was altered to *Chien-yin*, meaning "Money Voucher". The area of circulation was extended from Szechuen to the Yellow River and Hu Huai River valleys.‡

In A.D. 1137 paper money in circulation was estimated at about 37 million strings; by A.D. 1161 it had grown to 41 million kwan, by 1178 to 45 million, and by 1204 to about 80 million kwan. The metallic cover was diverted in the course of years to administrative purposes, so that the metallic reserves had by the year 1161 been reduced to merely 700,000 strings of cash.

These notes were also circulating in Shensi province, but in A.D. 1076 permission for their use there was revoked, due to continual depreciation and to speculating in Shensi. Owing to constant over-issues the notes showed rapid depreciation, and by 1007 a bill for 1,000 cash was worth only 10 cash. This state of affairs caused an extenaed use of silver money.

Now, as to the description of northern Sung notes: Emperor Shen-tsung (A.D. 1067-1085), whose era was known as Hsi-ning. Only one denomination of 50 kwan is known. Printed on bluish paper, the illustration shows the pictorial representation of 5 silver ingots. The size of the note is 18 x 36 cm. The first line contains horizontally the inscription for "Hsi-ning Treasury Note", while the second line indicates the denomination at 50 kwan. In the lower panel the following legend is seen: "The Board of Rites and Revenue, having received the imperial decree, prints this paper note to be used parallel with silver coin. The counterfeiter shall be decapitated. The captor of the criminal shall be rewarded with 100 taels in silver. The conniver—district official and civilian alike—shall be decapitated summarily." Hsi-ning . . . year . . . month . . . day emitted. An entirely new design of silver ingots is found on this note, showing that sycee silver at that time was cast in an entirely new and oblong shape, somewhat resembling flower petals. The border design on the notes displays the conventional pictorial representation of dragons and clouds.

Emperor Ch'in-tsung (A.D. 1126—1127) ruled under the dynastic style of Ching-kang. Altogether ten different denominations were issued, namely 5, 10, 15, 20, 25, 30, 35, 40, 45 and 50 kwan, probably on bluish paper, all measuring 16 x 23 cm. The border designs differ on every denomination, but they all depict treasury objects. The ingots of silver again show a new shape, namely, completely round. "The Great Sung Public Convenience Treasury Note" shows

* See "Die Form bankmaessiger Transaktionen im innern chinesischen Verkehr", by Dr. Ku Sui-lu.

† See "On Chinese Currency", by Dr. W. Vissering, 1877, chapter VI.

‡ See "Money and Credit in China", by Lien-sheng Yang, 1952, fol. 53.

inscriptions similar to the foregoing note. The reward offered varies according to the denomination and is 1,000 taels for the 50-kwan note.

PAPER MONEY DURING THE SOUTHERN SUNG DYNASTY (1127—1276 A.D.)

Under emperor Kao-tsung (A.D. 1127—1163) of the Southern Sung dynasty the issue of paper money was expanded in a reckless manner. In this way the foundation was laid for the wretched condition to which the state finances were reduced at the close of the Sung dynasty. In the 12th and first half of the 13th century ancient China was divided between the Southern Sung and the Golden dynasty of the Nuchen Tartars, both of which run a mad and disastrous race in the emission of assignats.

In order to appreciate the monetary history of those times, it is deemed expedient to supply a brief historical background. Until the beginning of the 12th century the Tartars had incessantly been harassing the Chinese. In the years 1125 to 1127 the Tartars, starting to pour in in large numbers, settled themselves along the Hoang-ho (river) and in Kaifeng-fu, the then capital of China. From that time onward they kept the country in awe and acted as the actual masters of the empire. Finally, they imprisoned emperor Hwei-tsung and his entire family, and when his son and successor humiliated himself so far as to go to the hostile camp in order to obtain from the barbarians the deliverance of his father, he too was made prisoner, while his family and his possessions were seized shortly thereafter. With such rich spoils, consisting of two emperors and their consorts, as well as all the male descendants of the Sung dynasty, and a numerous train of attendants, the Tartars marched back to their own dominions.

The younger brother of Kin-tsung (the carried-off emperor), being the sole representative of his line, was proclaimed "Son of Heaven", fixing his residence in the South at Kiang-ning on the Yangtze river and waiting for an opportunity to get his imprisoned relatives released.

Following six years captivity, his father died on foreign soil. After 22 years his ill-fated brother also died abroad. Exerting himself all the time to rescue them, the regent was forced to maintain a large army and to find the means for supporting the soldiers. The country became exhausted and overwhelmed with paper money, and after all plans and attempts at redemption and conversion had miscarried, the paper money became worthless. In the midst of such misery the prince abdicated in favor of his adopted son, retiring into seclusion.

His successors were no luckier than himself. The warfare against the Tartars devoured the entire revenues of the state, for besides the cost of maintaining an army, heavy tribute had to be paid to the victor. For such purposes the size of the note circulation had to be expanded continually. Many of the provinces had their own bills. Highsounding names were invented to entice the populace into accepting new notes. It even went so far that, when the people had lost all faith in the old paper currency, notes literally bearing the name of silver and gold metallics were issued with the promise that they would be convertible into these precious metals deposited in the Treasury for this purpose.*

The invasion of China by the Tartars was accompanied by the most unfavorable economic consequences. Everywhere, excepting the province of Szechuen which, thanks to its geographical situation, remained untouched after those most decisive political changes, paper money became worthless. As the people would no more accept banknotes, the note-issuing Bureau had to be closed in A.D. 1136. However, in 1131 a new kind of note had been invented, styled "Cash Notes" (*guan-dze*), meaning that, if presented at a designated office, they were to be redeemed in metal at face value.

In the province of Wu the emperor caused notes to be issued for the maintenance of the military colony there. The holder was supposed to be able to cash these at the capital within a stipulated period. However, within the next few years these bills assumed gradually the character of irredeemable notes. For this reason the Government decided in A.D. 1150 to print fiat money calling for from one to ten strings of cash. These were circulated in the provinces of Huai-si and Hu-kuang to the extent of 800,000 strings each. After three years they were to cease being legal tender.

In A.D. 1160 further notes were issued for circulation within certain provinces. These were in denominations of 1 kwan, as well as for 500, 300 and 200 cash. All these were meant to be legal tender notes, though not secured by metallic reserves. On the other hand, they were nominally secured on the tax for strangers, as well as on surplus from government monopolies, the total yield of which aggregated 10 million strings per year. The total note circulation, until the seventh month of the year 1166 exceeded 28 million strings of cash. Meanwhile many forgeries appeared on the market, facilitated by the primitive way of printing paper notes. For this reason an attempt was made to reduce the circulation up to 15 million strings; of these six million strings circulated between the governmental institutions, leaving 9 million strings of notes outstanding. By the close of the year 1166 the amount of fiat money remaining in circulation was estimated at 5 million strings.

The following year witnessed the destruction of the paper money hitherto retired. The new emissions were planned, as was the case with the Northern Sung dynasty, in diverse issues, one following upon the other. An upper limit, as well as the term of redemption, were fixed. Every distinct emission was not to exceed 10 million strings. After the expiration of 3 years the existing notes were exchanged for new ones. However, Government did not bind itself to redeem in metal. On the other hand, the note-issuing Bureaux were required to buy up paper money with gold or silver in the event of their market value declining, so as to maintain values. But, already in 1176 this system was abandoned. In order to have more funds in circulation, it was arranged to have the notes of the third and fourth series running for parallel terms. The redemption date was now extended to six, and later on, to 9 years. Furthermore, in A.D. 1195 the uppermost limit for every emission was increased to 30 million strings. Due to this practice paper money was depreciated in the beginning of the 13th century to such an extent that fiat money was accepted at a heavy discount only.

In A.D. 1231 the notes of the 14th and 15th series circulated again next to each other. The fixing of the total was frequently increased. In this manner the year 1236 showed notes in circulation to the extent of 329 million strings (16th and 17th emissions). In A.D. 1240 the 18th series made its appearance, and at the same time a new arrangement relative to the system of exchanging the bills was inaugurated. In order to raise peoples' confidence in the new notes, it was decided that five old notes should be exchangeable against one of the new emissions. However, sensing that the new issue was not better founded than the old one, the public failed to appreciate the new scheme. This was synonymous with an almost immediate depreciation of the new notes. Toward the close of the year the situation had grown so precarious that paper money lost its legal tender qualities, the governmental offices themselves

* See "On Chinese Currency", by Dr. W. Vissering, Leyden, 1877.

accepting them in payment only at one-half of their face value. Thus ended the banknotes regime of the Sungs.**

ANOTHER INTERPRETATION OF SOUTHERN SUNG NOTES

The following version of the analogous subject contains some repetitive evidence of the foregoing narrative. But it also brings new testimony from Liao Bao-seing†, who interprets occurrences from historical Chinese sources.

Permanent defense requirements of the empire in the Southern Sung dynasty worsened the situation, causing a further over-issue of paper money. Here also deposit certificates preceded the issue of paper money. The so-called *guan-dze* were placed into circulation by emperor Kao-tsung in A.D. 1131, when the troops stationed in the province of Szechuen demanded their pay. As the district could not be reached by sea, and since the transport of metallic money was too cumbersome, the Treasury handed over to the Chekiang authorities *guan-dze* certificates, which were to be passed on to contractors against delivery of grain and fodder. These certificates called for redemption at the Commodities Monopoly Office. At the request of the holder he could ask in place of hard cash either tea-certificates or salt bonds. As the Commodity Monopoly Bureau declined to redeem in cash more than one-third of the *guan-dze* on any one day, confidence was shaken amongst the mercantile community.

In 1936 emperor Kao-tsung commanded that metallic reserves should be deposited against newly issued *guan-dze*. Beside the latter, other fiat money made its appearance in A.D. 1159, and this was styled *Gung-chu*, viz., 800,000 kwan each for the Hwai-si-lu and the Hukuang districts, each with a three-year validity; and 400,000 kwan *gung-chu* for the district of Huai-dung-lu with a validity of two years. The certificates were either long-term deposit receipts, or else redeemable banknotes with a limited circulation period, serving as legal tender currency. Both these categories disappeared as soon as *hui-dze* paper money made its appearance. However, when much later, to wit, toward the close of the Sung dynasty's rule, a strong inflationary movement of hui-dze money set in, new *guan-dze* notes were again placed into traffic, in an attempt to once more stabilize the value of paper.

Fiat money with the name of *hui-dze* was printed in A.D. 1160. Emperor Kao-tsung ordered the Minister of Finance to provide metallic reserves for the new fiat money, simultaneously permitting mutual exchange of paper against metallic funds. *Hui-dze* were government issues and could not be emitted by private corporations or firms. In order to deter counterfeiters it was decreed that falsification or imitation of *hui-dze* were liable to pay the supreme penalty. This was in A.D. 1162. Those giving information about counterfeiting were to be rewarded with 1,000 kwan. Also assistants of forgers were to be rewarded in the same manner, beside being assured that they would not be punished, provided they acted as informers.

Originally the notes were issued in a single denomination of 1-kwan. However, in A.D. 1163 additional values were emitted, namely 500, 300 and 200 cash. The circulation of *hui-dze* at first was limited to restricted areas, but gradually these widened. Those provinces which were not favored with river traffic were permitted to pay taxes in their entirety in the shape of *hui-dze*. The other provinces had to render taxes to the extent of one-half in paper, and the other half in metallic money. The lastmentioned modus usually also was adopted in connection with the mortgaging of fields and houses, as well as in the trading of horses, cattle, junks, marriages, etc.

The circulation of *hui-dze* divulged a steady growth. Between 1161 and 1166, altogether 28 million kwan were printed, of which about 15.6 million were placed into circulation. Of these about 9.8 million kwan was in the hands of the public, while the rest was held by the authorities.

At first the terms of validity of *hui-dze* was unlimited. But since the quality of the paper was rather poor, it was arranged in A.D. 1168 that the period of circulation should be limited to three years, as was formerly the case during the Northern Sung dynasty. At the close of every circulation period old notes were exchanged against newly printed paper. At the same time it was stipulated that a fixed sum of 10 million kwan should be provided for every circulation period. The date of validity had to be extended in A.D. 1176 for the third and fourth periods, namely for a three-year prolongation. Concurrently, emperor Hiau-dzung ordered that for the fourth period an additional 2 million kwan would be printed.

At that time the total revenues of the Treasury aggregated 12 million kwan, of which one-half consisted of paper, which the other half was composed of metallic funds. The Treasury purchased against gold and silver about 4 million kwan of fiat money, and only 2 million remained in traffic. The 7th and 8th period of circulation of paper money was in A.D. 1190 also extended for three years. Thus the intervals of circulation reached a span of 9 years.

In A.D. 1195 emperor Ning-dzung decreed the augmentation of the total emission of *hui-dze* to altogether 30 million kwan, which means that, compared to 27 years ago, there was now the threefold volume of notes in circulation, a factor which brought about inflationary tendencies.

Apart from bronze coins, gold and silver were used as reserve fund, and Government sometimes also employed commodities for the purpose, like tea and salt. The expression *cheng-ti* goes to show that paper money should be retired in times of inflation. As soon as stable conditions were reached once more, the authorities would emit new paper notes. When a new inflationary spell set in, the imperial Treasury in A.D. 1166 placed at the disposal of the market one million taels for the purpose of purchasing and withdrawing paper money from the open market. But, as soon as the value of fiat money was once more stabilized, the commodities monopoly office bought salt for 250,000 kwan, paying in notes. Two years thereafter 4 million kwan of *hui-dze* certificates were bought up against gold and silver and withdrawn from traffic. Emperor Guan-dzung extended the period of validity for two categories by three years, and as also emperor Ning-dzung caused a threefold circulation of *hui-dze*, the value of paper sunk considerably.

In the beginning of the Chia-ding rule (1208-1224) there was no more equalization fund in existence, capable of stemming the inflationary tide. Emperor Ning-dzung at one time disposed of three circulation periods; at that time there were still 13.6 million kwan of the eleventh, and 102 million kwan of the twelfth and thirteenth circulation periods out. For the purpose of combatting those inflationary tendencies, the authorities expended 1,050,000 liang (i.e. taels) gold (one liang equalling 40 kwan), and also 7,000 monks' diplomas (each valued at 1,000 kwan). 20% of the eleventh, and 40% of the twelfth and thirteenth circulation periods were redeemed, namely at the ratio of two old for one new note.

Inflation grew by leaps and bounds, and by A.D. 1232 took on a serious aspect, because the volume of paper of both the current two validity circulation periods reached the height of 329 million kwan. With a view to ameliorat-

** See "Die Form bankmaessiger Transaktionen im innern chinesischen Verkehr" by Dr. Ku Sui-lu.

† See "Die Geschichte des chinesischen Geldes" by Liao Bao-seing, in "Sinica" 1941, (Franfurt a/M), Vol. 1—6.

ing the position emperor Li-dzung arranged that 50,000 monks' diplomas, official ranks, etc., should be distributed amongst the provinces, which were to purchase with the proceeds the *hui-dze* certificates of the sixteenth and seventeenth circulation periods. This measure caused merely a temporary amelioration, as the notes dropped in value very soon, while commodity prices divulged a rise. In A.D. 1250 the authorities were obliged to hand over to certain districts another 1,000 monks' diplomas, proceeds of which were used for the re-purchase of damaged paper money. The policy of redeeming torn notes with official documents continued for some years.

During the beginning of the 13th century, the exchange of old *hui-dze* notes, whose term had expired, was carried out at par with new paper. But, since those notes had much depreciated in the market, replacement in A.D. 1209 took place at a discount of 50%, i.e. two old for one of the new notes. The exchange ratio during the years 1234-1236 grew worse, for at that time five old notes became exchangeable against one new certificate. The *hui-dze* of the seventeenth exchange term, compared with the notes of the eighteenth period, were valued at only one-fifth of the latter. At that time (A.D. 1240) there remained still 500 million kwan of *hui-dze* of the sixteenth and seventeenth circulation period outstanding. In the year 1247 the limitation to certain circulation periods was abandoned altogether, so that the paper money of the seventeenth and eighteenth terms were permanently left in suspense, apart from exchanging damaged notes. However, some time thereafter, when once again new notes were printed, the fiat money of the eighteenth circulation term was redeemed for only one-tenth of the original value.

In order to stem the inflationary movement of the *hui-dze*, the authorities arranged the re-issue of *guan-dze* notes which were in traffic in the beginning of the Southern Sung dynasty and which were intended to stabilize the value of fiat money. In A.D. 1263 emperor Li-dzung ordered the emission of 200,000 kwan *guan-dze* notes of small denominations. Five years thereafter emperor Du-dzung decreed that one kwan (1,000 cash) should equal 770 cash in copper coins; 3 kwan of *hui-dze* notes of the 18th period. The lastmentioned then was equal to 257 copper coins. It was interdicted the change the ratio between *guan-dze* and *hui-dze*. Speaking generally, paper money during the Southern Sung dynasty had spread considerably.

Let us now revert to other sources* and record the description of Southern Sung issues. Emperor Kao-dzung (A.D. 1127-1162) ruled under the dynastic title of Chien-yen.

The notes issued under him, size 15 x 25 cm, were probably of blue paper. They appeared in five denominations, namely 10, 20, 30, 40 and 50 kwan. Ornamental borders with dragon and cloud designs and with pictorial representations of cash coins. In seal script on the sides: Great Sung Metal Cash. In the lower panel is found the usual text. On the reverse of the notes are to be seen the image of a tiger (10 kwan); a boar (20 kwan); an elephant (30 kwan); a rabbit (40 kwan); and a lion (50 kwan). The reward for denouncing counterfeiters varied according to denomination, and was largest (1,250 taels) on the 10-kwan note.

In A.D. 1131 the reigning dynasty's name was changed from Chien-yen to Shao-hsing. Three kinds of notes were issued then on bluish-grey paper, size 16 x 25 cm, according to the chronicles. Actually these notes existed in ten denominations from 1 to 10 kwan. The pictorial marks are cash coins. On the one-kwan note one cash is shown, and so forth, until the 10-cash bill reveals 10 cash as pictorial representation. On the upper right side is written in archaic script: To Circulate under the Heavens; while on the left appears: To be current and to be used. The first line on top reads: Great Sung Current Use Treasure-Note, to be followed by the indication of the denomination. The legend in the lower panel is similar to that revealed in the preceding emission.

Emperor Hsiao-tsung (A.D. 1163-1189), who ruled until 1173 as Ch'ien-tao. Notes in 10 denominations were issued, namely from 10 to 100 kwan. Bluish paper; size 15 x 25 cm. The pictorial representation was provided in round ingots of silver in numbers parallel with the face amount. Inscriptions in the lower panel vary and are similar to the foregoing issues. The reward for denouncing counterfeiters differs according to the value of the notes and was 1,400 taels for the 100-kwan denomination.

Emperor Kung-tsung (A.D. 1275) whose era was known as Te-yu. In the fifth month of the year 1275 notes were issued in place of silver. Ten varieties are known, denominated from 1 to 10 taels, size 11 x 22 cm. The inscriptions differ in some details from the usual wording. Top line: Great Sung General Circulation Treasure Note; followed by the pictorial representation of from one to ten *yuan-pao*. On the right hand border, in ordinary letters, vertically: Issued under the Heavens. Opposite on the left: To enrich the state and satisfy the people. In the lower panel: The Great Sung General Circulation Treasure Note is purposed for the convenient use of all people. The Board of Revenue, having received the imperial sanction, designs this note to represent ten taels in official silver, which value cannot be altered. The counterfeiter of this model—principal or conspirator—shall be executed summarily and exposed to public view. He who discovers a counterfeiter and reports his name to the district authorities shall receive immediately a reward of 25 taels in silver from the authorities of the district. This shall be current in all provinces. Great Sung, Te-yu. . . . year . . . month . . . day issued.

Emperor Li-tsung (A.D. 1225-1265), whose dynasty was known as Ching-ting. According to records, an issue of notes was made, but no other particulars are available other than they were called "*yin-kwan*", or silver obligation.**

Apart from the notes issued in A.D. 1154, records show that in A.D. 1202 the circulation of a note which had been passing round for some years, ceased. Only remnants of this specimen (probably in traffic between 1180 and 1202) are extant. It was a 'tri-conjunctive exchange note', judging from the inscription outside the border, reading: "Chung-tu (Peking) conjoined"; "Nanking conjoined", and "Pingliangfu conjoined". This proves that the treasuries of those three places were associated in the issuance. The note is of 10-kwan denomination and bears under the figure "One-Ten-Kwan" of "Eighty, sufficient for Onehundred." It was in A.D. 1180 that a law was enacted, saying that 80 cash would be accepted for every 100 cash on a note. The remainder of the legend was somewhat similar to the general emissions of those times. There is evidence of a further note issue having been in circulation between A.D. 1183 and 1197 in Eastern Shantung, called Tung-lu. Until A.D. 1216 there had been only two government note-printing offices: one at Peking, and the other one in Nanking. For the Eastern district of Shantung province the Treasuries were located in Itu-fu and Chi-nan-fu.

In A.D. 1197 an official remarked to the Throne that until 1183 the charge for renewing a worn note was 15 cash for each kwan face amount; but that since 1183 the charge for the same had been reduced to 8 cash for every note, irrespective of the face amount. Thereupon it was ordered by the emperor that the charge be 12 cash for each one

* See "Chinese Paper Money", by H. A. Ramsden, Yokohama, 1911.

** See "Chinese Paper Money" by H. A. Ramsden, p. 14. Yokohama, 1911.

ECONOMIC REPORTS FROM JAPAN

No Inflation Fear: Finance Minister Ikeda expressed his outlook of Japan's economic future and refuted fears of any inflation. He said (1) that, though the scale of the new budget in proportion to national income is being called in question, the ratio of fiscal 1957 budget for the General Account in comparison with the national income comes to 13.9% or a bit smaller than that of 1956 budget, which is 14.8%; (2) that, while the chief factor making for inflation is the shortage of consumption goods, there is rather a tendency for such goods being overproduced, and therefore no cause for fear of inflation for that matter; (3) that among capital goods an inadequacy of the supply of iron and steel is to be anticipated, but as the quality needed during this year is estimated to be some 400,000 tons more than last year, that much deficiency can be made good by imports; (4) that he believes his estimate of 13% increase from fiscal 1956 in exports to $2,800 millions in fiscal 1957 is not improper. Imports will not increase at such a pace, because the stocks of imported raw materials have much increased, the present stocks being estimated at $300 millions at the least and even at more than $400 millions; (5) that there is no divergence of opinions between him and Governor Yamagiwa of the Bank of Japan as to the monetary policies. The gist of the matter is to see to it that financings should be limited within the bounds of national savings, that is, deposits.

Formation of Loan Syndicate Suggested: Finance Minister Ikeda touched on the recent monetary situation and stated the need of forming a loan syndicate among commercial banks for regulating their loans and financings. What he had in view is to have priority given by banks to loans to electric power, iron and steel, and other industries in bottlenecks, while doing away with competitive financings in the field of oil-chemicals among others. It is true that there exist Funds Council in the Ministry of Finance, and Investment and Financing Committee and Voluntary Loan Regulation Committee in the Federation of Bankers Association of Japan. Yet, he said it is desirable that a new syndicate would be formed among banks for the purpose of channelling their loans to where really needed, and the Bank of Japan is expected to help formulating such an organization by talking it over with bankers. The Minister's suggestion created a sensation in the financial circles.

Industrial Production in 1956: According to a study of the Economic Planning Board, the industrial activity index for 1956 was 227.1 (1934-6=100), which is 20.9% above the level of 1955. It was mainly due to 21.1% increase compared with a year ago in mining and industrial production activities to 218.9, the percentage of increase in public utilities having been only 15.2%.

Labor Situation: The Ministry of Labor published a statement on conditions of labor in 1956. Some of the salient points are: (1) That employment increased (labor population increasing by 740,000 and those employed by 800,000), and there was also a rise in real wages (7.8% rise as compared with 1955), an indication brighter than a year ago; (2) That relations between the employers and the employed turned out to be comparatively less strained, having been free from too prolonged or too violent labor disputes; (3) That the number of wholly unemployed averaged 650,000 per month, or 50,000 less than in 1955, and the average monthly wages per capita amounted to Y20,201, or a 9.2% rise from 1955. The latter shows the result of a survey made of nearly 5 millions employed in 6 groups of businesses throughout the country including mining, manufacturing, wholesale and retail trade, financing and insurance, transportation and communication, and other public utilities.

Foreign Currency Holdings: The Government's foreign currency holdings declined by $79 millions in January to $1,355,231,000 at the end of that month, according to the Ministry of Finance. This is attributed to a recent increase in imports mainly from the sterling area, while exports to Southeast Asia are slackening.

1957 Budget: The budget for fiscal 1957 as finally fixed by the Government amounts, both in revenue and expenditure, to Y1,137,464 millions for the General Account. This shows an increase of Y102,541 millions in comparison with fiscal 1956.

Financial Policies: Finance Minister Ikeda expressed his views on the financial and monetary policies to be pursued hereafter. Among other things, he said (1) that a supplementary budget for fiscal 1956 for the General Account amounting to some Y50,000 millions will be drawn up, of which Y30,000 millions are to be allocated to the Industrial Investments Special Account; (2) that, while there is nothing uneasy about the monetary situation at present, he wished to see the balance kept between bank deposits and loans, along with the balanced budget, by refraining from reckless loans both on the part of lenders and borrowers, and so long as this balance is maintained no tightening of money needs be resorted to; (3) that international accounts for fiscal 1957 would not result in any deficit, but a deficit of something like $100 millions, if it ever happens, need not be regarded as a sign of unsoundness, unless accompanied by increased imports of non-essential and non-urgent goods; (4) that the Government's foreign currency holdings as at the end of December, 1956, amounted to Y1,435 millions, and that he has no intention of transferring the Foreign Exchange Fund Account to the Bank of Japan.

Economic Situation: The Economic Planning Board says that since towards the end of last year consumption by private individuals has notably increased, and this, added to greater Government spendings and increased investments in industries suffering from shortages, has intensified inflationary pressures. On the other hand, the rise in produc-

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kwan of the face amount of the note. As a matter of fact, the note referred to bears the inscription outside the border: The printing charge for every sheet is 8 cash.

Below the borderline is also found the inscription: One Ten-Kwan. In the upper panel is written vertically: One Ten-Kwan; Eighty is sufficient for Onehundred. At the right thereof the serial number; at the left the mark or number. Both, at the right of the upper panel, as well as in the center of the lower panel, we find: "He who counterfeits the Exchange-Note shall be decapitated. The reward shall be 300 kwan in cash." At the right of the lower panel: Shantung Tung-lu (23 characters are undecypherable), Nanking Exchange-Note Treasury, Itu-fu, Chinan-fu (one character cannot be identified) Treasuries (16 characters undecypherable). To the left of the lower panel: The Bureau of printed notes. The Commissioner of printed notes. The Department of Revenue in the Executive Department (two or three ideograms undecypherable). Outside the right hand decorated border: For the printing of every sheet the charge is 8 cash.

(To be Continued)

ECONOMIC LETTER FROM TOKYO

Budget For F.Y. '57-'58: The new fiscal year budget beginning next April is 11.9% bigger than the previous budget. The total is Y1,546,900 million (of which the General Account covered Y1,137,400 m.). The previous budget total was Y1,382,000 million (G.A. Y1,034,900 m.). The new budget features are:

(1) Balanced fiscal policy retained. (2) Tax cuts and economic growth. The natural increase in revenues (Y190,000 m.) is to apply for both tax cuts (net Y72,000 m.) and economic growth (increased G. A. outlay of Y102,500 m.). (3) Increased fiscal loans and investments as well as public works and social security expenditures. The fiscal loan and investment amount was raised (by Y63,400 m.) to expand and strengthen the economic base by breaking through the basic production bottlenecks. In addition, public works and social insurance outlays were upped in the General Account.

The new budget is generally received favorably. However, many see the need for caution in budget spendings in consideration of prevailing trends in supply-demand conditions of commodities, prices and balance of payments.

January Business Trends: No major shifts were seen in commodity market prices in January with both wholesale and retail businesses calming, following the overall firming trend toward last year-end. However, two tendencies of note in the situation were; the constantly high retail sales level reflecting the gradual rise in consumption, and the firm trend in producer goods represented by the further stiffening of coal and petroleum in the commodity mart, the continually rising trend for cement, lumber and machinery as well as persisting high prices for steel and nonferrous metals.

Recent Money Market: The busy money market trend at the last year-end is continuing. This is attributed to big Treasury fund withdrawals (excess withdrawals of Y250,-900 m. between Jan. 1st and Feb. 14th as against Y112,100 m. during the cor. pd. of prev. yr.) despite the favorable inflow of Bank of Japan notes, issues of which swelled at the last year-end (return flow of Y196,000 m. as against Y143,-500 m.; same period). Consequently, Bank of Japan loans rose by Y48,100 million during the period, bringing the loan balance to Y188,000 million as of Feb. 14th. Reflecting this situation, the short term money market also turned busy, with the rate hitting 9.12%. Basic factors contributing to the busy money market are the persistently brisk fund demands from the private sector led by investments in plant and equipment, and in addition, the continuously big excess withdrawals in the Treasury accounts including the growing volume of natural increase in tax receipts reflecting the business prosperity and excess receipts over outgo from the Foreign Exchange Fund accompanying the rise in import.

January Foreign Exchange Balance: The foreign exchange balance showed a deficit of $14 million in January, as against the $12 m. surplus for the previous month. Although receipts came to about the December level propped by a favorable export-rise (despite the dip in special procurement receipts), payments mounted owing to the import-rise. Favorable receipts from exports were due to January settlements of high level ship exports in the previous month. Increase in import settlement was due to continuous raw material import headed by raw materials for steel making. A notable factor is that the surplus in the dollar accounts continued from February 1955 turned to deficit ($16 m.).

(million dollars)

	1956 Apr.-June	1956 July-Sept.	1956 Oct.-Dec.	1957 Jan.
Receipt	816	814	845	285
Export	612	605	619	219
Special Procurement	147	152	162	41
Payment	691	807	807	299
Import	569	682	688	262
Balance	125	6	38	—14

Selected Indicators

	1953 Dec.	1954 Dec.	1955 Dec.	1956 Dec.	1957 Jan.
Bank Notes	629.8	622.0	673.8	784.8	676.4
Wholesale Price Index	102.8	98.0	97.9	106.4	106.7
Ind. prod. Index	172.6	172.9	199.1	234.8	—
Export	139	190	249	271	169
Import	264	172	233	318	328

Production of Essential Commodities

Commodities	(unit)	1954 Mon. Ave.	1955 Mon. Ave.	1956 Dec.
Coal	(1000 M.T.)	3,560	3,535	4,258
Pig-iron	(„)	384	435	551
Steel	(„)	466	578	717
Electrolytic copper	(M.T.)	8,874	9,443	10,880
Zinc	(„)	8,489	9,377	11,391
Aluminum	(„)	4,426	4,792	5,765
Sulphur	(„)	15,642	16,868	22,958
Cement	(1000 M.T.)	890	880	1,175
Ammonium sulphate	(„)	173	177	198
Raw silk	(bale—132 lbs.)	21,493	24,123	28,409
Cotton yarn	(mil. lbs.)	85	77	100
Cotton fabric	(mil. sq. yds.)	265	252	306
Rayon fabric	(„)	55	65	82

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tive capacity and pressures of increased inventories as well as scarcity of money constituted deflationary factors. With these two conflicting factors at work to threaten a stable economic growth, the Board stresses the need of adopting a flexible policy to meet the situation.

Economic Plan for 1957: The Economic Planning Board submitted to the Cabinet its economic plan for fiscal 1957, which is that part of 5 year economic program assigned to 1957. As a result of steady economic progress made possible through pursuance of such policies as is suggested by the Board as (1) elimination of production bottlenecks, (2) promotion of exports, (3) fostering of scientific skills, (4) promotion of small and medium-sized businesses and agricultural and aquatic industries, (5) extension of social security and facilitating home construction, etc., and by keeping prices stable, the Board expects to see some 13% expansion both in exports and industrial production, and 7.5% rise in national income to Y8,180,000 millions in fiscal 1957.

Inventory Investment: The Economic Planning Board has been making a study of the changes in inventory investments in relation to the business cycles, and has found the two to move almost concurrently. It shows (1) that inventory investments increase takes place in a cycle of one year approximately keeping pace with the short business cycles; (2) that since in the last two years inventory investments increased considerably, 26.5% in 1955 and 45.8% in 1956, a decrease is to be expected in 1957, and (3) that the rate of decrease in 1957 is estimated at some 30% (Y200,-000 millions). Accordingly, there is a strong possibility for the expansion of total supply and demand, as well as of industrial production and of imports to slacken, and for business profits to shrink because of lower prices for manufactures and higher raw materials, the Board States.

HONGKONG TRADE IN 1956 AND OUTLOOK FOR 195

By Ricardo

While the world trade last year rose to US$100 billion, Hongkong trade also boomed to the post-Korean-war record figure of HK$7,775.8 million. Imports, totalling $4,566.2 m and exports amounting to $3,209.6 m, were $847.3 m and $675.6 m higher than respective figures for 1955. Strong demand from SE Asia for Chinese and Japanese products especially during the first half year was largely responsible for this improvement.

China remained the number one supplier, Japan the second, UK the third and US the fourth. Indonesia became the most important customer of HK while Malaya dropped from No. 1 in 1955 to No. 2 last year, followed by 3—Thailand, 4—Japan, 5—UK, 6—Cambodia, Laos and Vietnam, 7—China, 8—Korea, 9—Europe, and 10—US. With the exception of Malaya, China and Korea, exports to these countries registered increases over the previous year. Much improvement particularly in exports to Indonesia, Thailand, Europe, and Cambodia, Laos and Vietnam, was recorded during the first six months and in the case of Malaya, the gain in first half year was out-weighed by a decline in second half year.

It is significant for local trade expansion that while the export of HK products increased from 1955's $730.3 m to $782.6 m last year, the percentage which HK products constitute in the total export dropped from 28.8% in 1955 to 24.4% last year. Furthermore, principal customers like Thailand, Burma, Cambodia, Laos and Vietnam bought less HK products last year in spite of the fact that total 1956 exports to these countries were higher. Indonesia was the second best customer for HK products but during second half year Djakarta introduced various import restrictions to protect her domestic industries; as a result, exports of HK products to Indonesia declined.

Commodity prices registered an upward trend especially during second half year because stocks of metals, paper, chemicals, pharmaceuticals and other items dwindled after heavy exports during the first six months while dealers here restricted booking of new supplies from Japan, Europe and other sources because cost of replenishment advanced at a higher rate than price increases in the local market.

Freight rates registered a steady increase along various lines. A 15% surcharge was introduced in November when the Suez Canal blockade forced ships sailing between Europe and the Far East to go around the Cape of Good Hope. The Suez blockade also hastened the introduction of higher basic rates necessitated by (1) the increased volume of world trade, (2) the shortage of cargo ships and (3) the rise in operation cost of vessels.

Trade with China

Peking accumulated a surplus of HK$902.3 m last year in her trade with HK. Imports from China totalling $1,038.3 m consisted chiefly of foodstuffs, coal, cotton textiles and other light industrial products. In the case of foodstuffs, China shipped here less live hogs but more frozen, preserved and canned food. Consignments of frozen meat rose from 1955's 237 long tons to 1,853 long tons making up about 31% of HK total frozen meat imports. Coal imports, too, rose from 15,851 long tons in 1955 to 117,774 long tons last year feeding about 58% of HK total coal consumption. Imports of cotton textiles and other light industrial products registered considerable improvement on account of strong demand from SE Asia especially during first half year. Supply of staples such as beans and oil seeds was curtailed and dealers here were only able to get small quantities to meet the demand from Europe, UK and Japan. New items offered to HK included capital goods such as textile machinery, knitting machines, automatic looms, hosiery machine, mining equipment, printing machine, tools and constructon metals; but the response from local dealers was not keen. On the other hand, Chinese window glass, silk piece goods, sawn timber, camphor wood chest, towel, drawn lace work, cement and paper enjoyed very strong local demand. These items were also popular with SE Asia and during second half year, China offered them direct to Malaya, India, Ceylon and other SE Asian countries.

Peking's policy of promoting direct trade with countries in the Far and Near East whenever possible was emphasised especially during the Exhibition of Chinese Products held in Canton towards year-end. About 80% of the HK$300 m worth of contracts signed during the Exhibition were concluded with businessmen from Afro-Asian countries. Many local dealers managed to get some beans and oilseeds but quantities were small in each transaction. The sharp rise of imports from China in the first six months therefore levelled off during second half year as shown in the following statistics:

	Imports from China	Exports to China
	(in million HK$)	
1956	**1,038.3**	**136.0**
1955	897.7	181.6
Ups (+) & Downs (—) in 1956 compared with 1955		
Jan.-June	+109.2	—69.6
July-Dec.	+ 31.4	+24.0
Total	+140.6	—45.6

The above figures also show that exports to China during second half year were better than those for the same period in 1955 partly due to the introduction by Government during mid-year of the COCOM Exceptions Procedure whereby certain less important strategic commodities may be exported to China. The relaxation would have no effect on exports to China if prices here were unattractive. However, during second half year, prices here for round bars, steel plate, and other metals as well as selective items of pharmaceuticals and chemicals were sometimes lower than new indents in spite of slight increases in the local market. HK manufactured round bars, too, were absorbed by China on account of their favourable prices. Peking trade agency in HK also bought from here a large number of Swiss watches and 341 automobiles amounting to $4.4 million.

This unexpected return to the local market for various imports was also indirectly caused by the Suez blockade which made direct imports from Europe full of uncertainties for Peking. There were indications that Peking might import more industrial equipment and supplies from non-Communist countries, possibly through HK for part of these procure-

ments. The Tsam Kong Harbour about 250 miles west of HK was completed last year to handle imports of supplies for South and East China while Tientsin and other northern ports were enlarged to take ships carrying cargoes for North China. This does not mean that HK exports to China will begin a climb in 1957. Most contracts, if signed here with local agents of manufacturers, will be for direct shipments from supplying countries to China. Absorption of spot goods from the local market would depend upon commodity prices here.

Fundamentally, Peking depends upon USSR for most supplies and equipment for her major industrial projects which Moscow is helping to build. Purchases from Japan, West Europe, UK and other non-Communist countries will be limited to items which USSR and her satellites could not adequately provide. Furthermore, Japanese products will have priority over goods of other countries because Japan is geographically nearer and politically more important than UK and Europe to Peking. China's imports from Japan in 1956 totalled US$67.3 m which is $38.3 m higher than in 1955; principal items were machinery, pharmaceuticals and cement.

In her exports to HK, Peking's main aim is to accumulate foreign exchange. HK also serves as a broker for the marketing of China's new export items. Under this pattern of trade, Peking has already curtailed exports to the local market of those items which SE Asia and other countries are buying direct from China. Traders here will be offered more new export items which USSR do not need, UK and Europe will not buy and SE Asia has not yet bought direct from China. In the case of foodstuffs, shipments to the local market will be substantial but Peking will continue to manipulate the supply to keep prices at high levels.

Trade with Japan

Similar to HK-China trade, there was a considerable increase in imports from Japan during the first six months and a corresponding slow-down in second half year. Exports to Japan registered improvement over 1955 during second half year.

	Imports from Japan	Exports to Japan
	(in million HK$)	
1956	**810.6**	**318.0**
1955	525.9	146.3
Improvements in 1956 compared with 1955		
Jan.-June	+251.7	+ 49.3
July-Dec.	+ 33.0	+122.4
Total	+284.7	+171.7

Imports from Japan were extremely heavy in March, April and May averaging $100 million a month. Demand from SE Asia, particularly from Indonesia and Thailand, for Japanese cotton yarn, piece goods, rayon products, cement, paper, ajinomoto, marine products and machinery was very strong because most countries in SE Asia had not established proper trade relations with Japan due to difficulties encountered in reparation settlements. After the resumption of normal trade with Japan during second half year, these countries approached Japan for direct imports and curtailed purchases from here. Indonesia, however, still bought considerable quantities of Japanese goods from HK because Japan regulated exports according to her purchases from Indonesia. Furthermore, due to exchange rate differences, Djakarta sometimes found that Japanese products could be obtained from here at prices cheaper than direct imports from Japan. Dealers here again turned to Japan for more paper and other supplies during October, November and December when imports from Europe were delayed by the Suez blockade but improvements were restricted by advanced indents and limited number of offers from Tokyo.

Exports to Japan registered a gradual rise last year mainly due to the steady demand from Japan for China produce, scrap iron and steels. In spite of her direct imports from China, Japan still bought substantial quantities of beans, oilseeds and other staples from here. Local dealers therefore obtained supplies from SE Asia, chiefly from Indonesia, Thailand and Cambodia for shipments to Japan. Demand from Japan for scrap iron was keen throughout the year and had there been more supply available in HK, Japan would have absorbed all of it. Orders for steel plates and bars were unexpected and stimulated local market to a new boom during second half year.

With Japan routing more vessels to run China ports, less Chinese exports will be transhipped here to Japan. Demand from Japan for staples of SE Asian origin will also be affected by the increased volume of Japan's direct trade with SE Asia which in turn would curtail the demand from these countries for Japanese goods in the local market. Japan's purchases of steel products from here could not reach any impressive figures because local products are limited in quantity and in the case of European goods, Japan will buy direct from the production sources. Out of Japan's imports of 200,000 tons of steels last year, purchases from HK totalled only about 10,000 tons. The world supply of scrap iron is dwindling and export of this item to Japan this year could not possibly exceed 1956 record. Imports of items required by local industries including grey cloth, poplin, fibre yarn, rayon goods, cement, and base metals from Japan tend to increase; but it is highly doubtful that these improvements alone could boost HK-Japan trade to a volume higher than that registered last year.

Trade with UK

In spite of the Suez Canal blockade, imports from UK were heavier during second half year than the first six months; gains over 1955 were also more impressive during second half year:

	Imports from UK	Exports to UK
	(in million HK$)	
1956	**513.3**	**298.4**
1955	441.1	251.1
Improvements in 1956 compared with 1955		
Jan.-June	+10.7	+26.2
July-Dec.	+61.5	+21.1
Total	+72.2	+47.3

Base metal imports remained substantial not only on account of the increased local demand but also because Peking bought items such as blackplate, tinplate, etc. from the local market after the ease of embargo on China. Japan's demand for steel bars and plates also stimulated imports of these items from UK. Imports of woollen piecegoods improved chiefly on account of the increased mail-order demand from US and Okinawa for tailor-made suits. Local factories also used large quantities of wool yarn. Demand for UK automobiles was increasing as a result of the hire-purchase facilities offered by local dealers. HK also bought more buses from UK on account of the growing number of passengers carried by public transportations.

Exports to UK were very steady last year averaging about $25 m every month. Improvements in exports of HK

products to UK were responsible for 50% of the gain registered in total exports to UK over 1955. HK products also constituted about 55% of the total export to UK; principal items were grey cloth, shirts, underwear, rubber footwear, table cloth, towel and gloves. China produce including woodoil, menthol crystal, bamboo cane, feather and drawn lace work constituted the other 45%.

Exports of China produce this year might be affected by increased volume of China's direct trade with UK especially if UK ships more machinery and equipment to China. However, exports of HK manufactures to UK could be further improved if local factories improve the quality of shirts, underwear, cloth and other products. The steady increase in shipments of HK goods to UK is drawing more complaints from manufacturers there but London maintains that colonial imports would continue to be admitted duty free and during the year authorized HK Government to state that there would be no change in the present policy regarding imports of goods of HK origin into UK. Actually, UK imports from HK amount to only about half per cent of her total imports. Furthermore, the increase in shipments of HK products to UK is always much less than the corresponding improvement in imports of base metals and other materials from UK. In other words, any fall in exports of HK products to UK will bring abcut a much larger decline in imports of factory items from UK!

Trade with Europe

Both imports and exports last year showed improvement over those for 1955 but HK's trade deficit grew from $413.3 m in 1955 to $446.8 m last year.

	1956	1955
	(in million HK$)	
Imports from Europe	572.6	524.3
Exports to Europe	125.8	111.0
Deficit	446.8	413.3

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Countries	Imports from		Exports to	
	(in million HK$)			
	1956	1955	1956	1955
Switzerland	131.65	99.98	3.58	3.96
West Germany	118.98	128.35	36.61	33.48
Belgium	109.29	97.74	11.60	9.99
Netherlands	77.87	64.24	23.81	20.23
Italy	40.48	36.61	9.08	6.85
France	27.92	30.91	21.17	18.97
Sweden	18.93	20.28	6.05	5.70
Austria	16.27	13.95	0.05	0.05
Denmark	5.86	5.98	5.06	5.92
Norway	4.69	6.04	5.99	4.02
Finland	2.82	3.78	0.74	0.03
Europe, Other Countries	17.92	16.42	2.09	1.82
Europe (Total)	572.58	524.28	125.83	111.02

Switzerland was the No. 1 European supplier and imports of Swiss watches and movements totalled $113.9 m representing 86.5% of total imports from that country. Compared with 1955, imports of watches and movements improved by about 54.2% while total imports advanced only 31.7%. This reflects the increased volume of watch-smuggling from here into Japan, Taiwan and SE Asia. Smuggling of watches into China slowed down because Peking trade agents here bought a large number of watches from the local market in addition to Peking's direct imports from Switzerland, UK and Japan. Swiss silk and cotton piece-goods also enjoyed growing local demand. Imports of machinery from **Germany** increased but the gain was not substantial enough to offset the drop in imports of dyestuffs, tanning materials and metals. **Belgium** shipped here more window sash bars on account of the growing local demand from the building industry. Peking also bought Belgian fertilizers from the local market. Imports of dairy products and other provisions from **Netherlands** further improved but imports of chemicals and pharmaceuticals from **France** and **Italy** declined. Total imports from Italy, however, registered an increase of about $4 million on account of heavy imports of rayon yarn and textiles. Imports from **Sweden, Norway** and **Finland** declined chiefly due to the curtailed supply of paper from these countries. **Austria** however shipped here more sulphite, kraft, newsprint, glassine, manifold and other varieties than the previous year. Imports from **Denmark** remained at 1955 level; principal items were beverages, pharmaceuticals and dyestuffs. Imports of paper, chemicals and window glass from other European countries including those in Eastern Europe registered slight improvements last year.

Exports were still restrictive because demand from Europe for China produce was met with insufficient stock here due to curtailed supply from China. Dealers therefore obtained supplies from SE Asia and Taiwan during the year and as a result, exports of China produce to Europe were much better than in 1955. Demand from Europe for HK products also improved from 1955's $10.62 m to $13.08 m last year; Netherlands was the best European buyer with purchases of $3.07 m while Austria only bought $408 worth of HK products.

Exports of HK Products
(in million HK$)

To	1956	1955
Netherlands	3.07	1.77
Germany	2.33	1.47
Belgium	1.89	1.66
Denmark	1.58	1.20
Sweden	1.56	1.78
France	0.66	0.91
Italy	0.65	0.66
Norway	0.52	0.40
Switzerland	0.30	0.36
Europe, Other Countries	0.52	0.41
Total	**13.08**	**10.62**

There should be better results this year in exports of HK products to Europe. Competition in European markets for HK products is intense; however buyers there will favour HK manufactures if factories here produce high-quality goods at attractive prices as in the case of gloves. Similar results could be achieved in exports of straw hats, embroideries, wearing apparel, and other handicrafts. Exports of China produce will depend upon China's policy in her trade with Europe and dealers here could not possibly expect more orders from Europe for China staples if Peking chooses to ship staples direct to Europe at prices sometimes cheaper than offered to HK.

Imports of machinery, especially from West Germany, should improve because factories here are keen in methods and equipment which could increase their production efficiency. Furthermore, SE Asia is launching various industrial development plans which would need millions of dollars

worth of equipment and machinery. But German and other manufacturers would have to do much more promotion work as well as "market research" in HK and in SE Asia to exploit this possibility. Imports of European pharmaceuticals, chemicals and dyestuffs should not fall below the 1955 level because demand for a selective number of these items from Korea, SE Asia and local factories is quite steady and stock here was short throughout last year. Imports of paper from Europe will depend chiefly on demand from Korea and, to a less extent, on orders from SE Asia. Imports of metals will have to be regulated according to local consumption and limited demand from SE Asia rather than guided by the speculative boom of 1956 stimulated by the irregular demand from Japan.

Trade with US

US remained the 4th supplier of HK with shipments totalling HK$423.8 m last year which is only 17.5% less than HK imports from UK during the same period; it also represents an increase of $98.9 m over imports from US in 1955. The rise in imports was particularly steep during second half year:

	Imports from US	Exports to US
	(in million HK$)	
1956	**423.8**	**116.6**
1955	324.9	87.9
Improvements in 1956 compared with 1955		
Jan.-June	+ 9.8	+12.0
July-Dec.	+89.1	+16.7
Total	+98.9	+28.7

Principal items responsible for the rise were pharmaceuticals, fibres, machinery and equipment, electric appliances and textiles. Imports of cotton from US were slow during first half year because prices were higher than Pakistan products but during second half year local mills ordered large quantities of US cotton with P/As (purchasing authorizations) received from Djakarta for exports of HK yarn and cloth to Indonesia. The relaxation of export control in US during second half year on certain types of cloth, druggist sundries, certain synthetic textiles, yarns and fibre, domestic stoves and heaters, wood-working machine and parts, certain industrial equipment and machines, helped to boost the volume of these shipments to HK. Imports of metals failed to improve on account of strict export restrictions on end-use maintained by US. Dealers here wanted to book more newsprint from US to meet the demand from Korea but only small quantities were available; indents were also too high to be attractive in the local market particularly when exchange rates for US dollars hiked from HK$5.805 to the record high of HK$6.475 for notes and from $5.825 to $6.50 for T/T. Imports from US would have been much heavier last year especially during the period when the Suez crisis was at its most explosive stage if exchange rates for US dollars had not advanced so much.

Exports to US improved by $28.7 m over 1955. Among principal items responsible for this increase, clothing (shirts, gloves, underwear, nightwear, singlets and other knitwear) alone accounted for $10.5 m. Another important factor which stimulated exports to US was the addition of more HK manufactures onto the list of products which can be shipped there if covered by comprehensive certificates of origin. HK also arranged with US for American tourists to bring home HK products up to a maximum value of HK$1,500 under tourist comprehensive certificates of origin.

HK still imported far much more American goods than US bought from here. In spite of the earnings from the invisible trade to balance the US dollar deficit, HK must send more manufactures to US. The prospects are good because US is too big a market to be "flooded" by any particular kind of HK products. There is ample room for further expansion in exports of silk piecegoods, drawn lace work, rattan furniture, carved chests and furniture and many other products which incorporates raw materials abundant in SE Asia with the skill of cheap local labour. The volume of imports from US this year will largely depend upon the demand from SE Asia and Korea. Prospects are doubtful because these countries are buying most American products direct from US. On the other hand, local demand for American air conditioning units, lifts, cosmetics, provisions and other consumer goods is growing.

Trade with Indonesia

As the result of the improved financial situation in Indonesia, brought about by the advanced world price for rubber and the increased exports of petroleum products, Djakarta last year increased purchases from HK to the total value of $501.4 m.; about $300 million over 1955. The volume would have been bigger if Djakarta did not introduce various regulations and restrictions to protect Indonesian industries. Items responsible for the improvement were chiefly Japanese cotton yarn, cloth, metals, paper, and sundries. Only about 12% of the increase could be credited to the export of HK products which rose from $90.3 m in 1955 to $126 m last year. This explains why exports dropped from the highest monthly figure of $89.6 m in April to the lowest of $8 m in October after Indonesia turned to Japan for direct imports. Indonesia also bought large quantities of Chinese paper and other light industrial products from here but as soon as Peking offered direct shipments to Djakarta at prices sometimes cheaper than quotations to HK, exports of these items from here to Indonesia dropped. Exports rose again to $18.7 m in November and to $42.2 m in December after Djakarta had concluded a cotton textile agreement with HK mills covering the purchase of cotton yarn and cloth from here with US raw cotton as payments. Total exports during second half year however were much less than the record for first six months.

	Imports from Indonesia	Exports to Indonesia
	(in million HK$)	
1956	**58.9**	**501.4**
1955	28.9	193.4
Ups (+) and Downs (—) in 1956 compared with 1955		
Jan.-June	— 3.2	+268.3
July-Dec.	+33.2	+ 39.7
Improvements in 1956	+30.0	+308.0

Imports of Indonesian staples improved during second half year on account of stronger demand from Japan for beans, oilseeds, cow hide; from China for raw sugar; and from local consumers for rubber, petroleum products, rattan and other items. Total imports last year therefore registered an increase of $30 m in spite of the $3 m drop during first half year.

Further improvements in imports from Indonesia will depend upon demand from UK and Europe for beans and other staples and the local consumption of kerosene, groundnut oil, rattan, rubber, sugar, etc.; demand from Japan is uncertain because Japan-Indonesia trade is growing. There

is not much possibility for exports of Japanese and Chinese products from here to Indonesia to regain the height reached during first half last year. However, as long as Japan regulates exports according to imports from Indonesia, Djakarta would still procure Japanese products from and via HK especially when some Japanese products could be obtained from the local market at prices cheaper than from Japan due to exchange differences. On the other hand, if Djakarta eventually sends rubber, tin and crude oil to China as Peking has suggested, more Chinese textiles, paper, metals and other light industrial products as well as equipment and machinery would go direct from China to Indonesia.

Prospects for further improvement in exports of HK products to Indonesia particularly of cotton yarn, cloth and cement depends upon the rate of growth of industries in Indonesia under the current five year plan. In the near future, however, there should still be orders from Djakarta for HK cotton textiles, enamelware, and other products if factories here could improve their products and keep prices competitive.

Trade with Thailand

Imports were about the same as in 1955; principal items were rice, beans, groundnut oil, maize, sesame, live cattle, teak squares and logs. HK was the number 2 rice customer of Thailand last year with purchases totalling 174,563 metric tons. Exports followed almost the same pattern as HK-Indonesia trade: there was an impressive increase in exports of Chinese and Japanese goods but the gain was registered mostly during first half year and after Thailand had developed more direct trade with Japan and China, exports from here declined:

	Imports from Thailand	Exports to Thailand
	(in million HK$)	
1956	**185.4**	**319.6**
1955	185.9	179.1
Ups (+) and Downs (—) in 1956 compared with 1955		
Jan.-June	+2.6	+124.0
July-Dec.	—3.1	+ 16.5
Total	—0.5	+140.5

Bangkok's attitude on trade with Peking made a 180-degree turn last year. At the beginning of the year, Bangkok prohibited imports of Chinese products. The 12 Thai Congressmen who went to China were detained by the Police Investigation Department on their return from the "unauthorized visit" to Peking. Later, import restriction there was relaxed and Chinese products began to flood the Thai market. In June, Bangkok permitted free export of rice and other non-strategic goods to all countries including China but still denied that there was any direct trade with China. However, during second half year Bangkok even offered to sell Peking goods to Taiwan.

Contrary to the increased exports of Chinese and Japanese products, exports of HK manufactures to Thailand declined from $61 m in 1955 to $48 m last year. HK products accounted for only 15% of total exports to Thailand representing an alarming drop from 34% in 1955. Local industrialists were worried about the deterioration of this important market for HK products. In December, many factories here participated in the Exhibition held in Bangkok to promote the sale of HK products. The result of this exhibition remains to be seen.

In view of the steady growth of Thai industries and the restrictions introduced by Bangkok on imports there is little possibility for HK to sell more knitwear, cotton textiles and metalware which Thai factories are able to produce enough to meet their domestic demand. If China and Japan continue to develop more direct trade with Thailand, Bangkok would further curtail purchases of Chinese garlic, foodstuffs, paper, iron wire nails, window glass, sewing machine, cement, tea and of Japanese cotton textiles, sundries, cotton blankets, metals, electric appliances, rayon yarn, paper and pharmaceuticals from the local market. However, there are possibilities that HK might export more machinery and equipment, and various industrial raw materials and supplies of UK, US, German and other European origins to Thailand. Imports of beans, sesame, maize and other staples might drop slightly on account of Japan's direct purchases of these items from Thailand but imports of rice, teak logs and squares, groundnut oil, and live cattle will remain at the present level if Bangkok do not ask for any unjustified price increases; local demand for these items, particularly rice, is now very steady.

Trade with Malaya

Imports from Malaya (including Singapore) last year remained at 1955 level. Local demand for firewood, charcoal, rubber, tin ingot, sawn timber, coconut oil, sea shells, etc. from Singapore, Penang and other Malayan ports was very steady:

	Imports from Malaya	Exports to Malaya
	(in million HK$)	
1956	**152.3**	**372.8**
1955	151.4	375.4
Ups (+) and Downs (—) in 1956 compared with 1955		
Jan.-June	+15.1	+13.4
July-Dec.	—14.2	—16.0
Total	+ 0.9	— 2.6

Exports, too, remained at about the same level as 1955. Nevertheless, the fact that Malaya's purchases from here did not increase with her rise in imports last year to M$4,152.8 m from M$3,821 m in 1955 indicates the tendency of gradual decline in imports from here. The above figure however might give a distorted picture of sharp drop in exports to Malaya during second half year. In reality, exports to Malaya were very steady throughout the year and the drop of $16 m during second half year as compared with 1955 same period was due to the particularly heavy exports during second half 1955:

Exports to Malaya

(in million HK$)

	1955	Up & Down		1956
Jan.-June	174.7	+13.4	=	188.1
July-Dec.	200.7	—16.0	=	184.7
Total	375.4	— 2.6	=	372.8

The most important development last year in trade with Malaya was the increasing volume of China-Malaya trade after the lifting of embargo in Malaya on rubber exports to China. The effect was not yet very adverse on exports of Chinese foodstuffs and light industrial products from here to Malaya because China ordered only about 10,000 tons of Malayan rubber last year which is a far cry to the 100,000

tons offered by Malayan exporters. Malaya's purchases of Japanese products from the local market were also maintained at 1955 level because authorities there were slow in allowing Japanese firms to establish branches in Singapore and other business centres in Malaya. Exports of HK products on the other hand dipped from $102.6 m in 1955 to only $88 m last year due chiefly to the curtailed purchases of HK cotton yarn and cloth.

With Japan elbowing into Malayan markets and merchants in Singapore and Malaya anxious to do more trade with China, there are not much prospects for HK to sell more Japanese and Chinese goods to Malaya. Furthermore, businessmen in Singapore were negotiating with China and Japan to promote Singapore's entrepot trade. The building of deep sea berths at Port Swettenham and the expansion of Kuala Lumpur's international airport are significant indications to Singapore's desire to compete with HK in entrepot trade.

Exports of HK products to Malaya will be chiefly affected by the competition from Singapore factories which Japan is helping to build, particularly those which manufacture knitwear, cloth and cement. However, the potential demand from Malayan markets is strong and if HK manufacturers concentrate on products which Singapore industries are not yet able to produce, competition from Chinese and Japanese products could not be very intense because HK products enjoy preferential tariff in Malaya.

Trade with Cambodia, Laos and Vietnam

The bullish trend in exports to Cambodia, Laos and Vietnam (CLV) during second half of 1955 following the receipt of US aid funds by these countries was damped last year by import restrictions imposed by these governments including: (1) the requirement that US funds must be used only for imports direct from manufacturing countries and (2) the complicated system to check all import applications to prevent importers there from applying for more US dollars than justified. Saigon also increased import duty on textile and knitted goods. CLV's purchases from here of garlic, tea, herb medicines and paper of Chinese origin; metals, paper, electric appliances, chemicals and other items of Japanese and European origins were mainly financed with HK dollars earned from shipments of scrap iron, feather, sesame, maize and other staples to the local market. The increase in imports of staples from and the gradual decline in exports to CLV since July-December 1955 period is apparent in following figures:

	Imports from CLV		Exports to CLV	
	(in million HK$)			
1955—Jan./June	16.5		32.8	
July/Dec.	12.4		92.8	
Total		28.9		125.6
1956—Jan./June	29.9		73.9	
July/Dec.	39.6		64.8	
Total		69.5		138.7
Improvements in 1956 compared with 1955		+40.6		+13.1

Cambodia shared the largest portion of both imports from and exports to these three states. Trade with South Vietnam was adversely affected by restrictions imposed on Chinese traders there by Saigon. The volume of exports to Laos was difficult to assess because large consignments went there via Thailand. Trade with North Vietnam was chiefly conducted on barter basis covering tea, aniseed oil, potato, feather, maize, woodoil, bean, rice and sundry provisions from Haiphong in exchange for chemicals, pharmaceuticals, machine tools, gunny bags, building and construction materials, cloth and yarn. Exports of HK products including textiles, wheat flour, hurricane lantern, cement, knitwear, torch, etc. to CLV last year were $7.2 m less than in 1955 reflecting a sharp decline in demand especially when taking into consideration that total export to CLV last year was $13.1 m higher than 1955.

Exports of HK products to CLV might further decline on account of keen competition from Japanese and Chinese light industrial products. In Vientiane, 12 Japanese firms with agencies there organized a Japanese trade centre to promote the sale of Japanese products. In South Vietnam, Japan is helping Saigon to develop various industries. With Haiphong, Tokyo signed an agreement on exchange of goods covering staples from North Vietnam against industrial supplies and equipment from Japan. Under the Chinese-Cambodian trade agreement, Peking sold £5 million worth of equipment, construction materials and other products to Phnompenh. These developments would also adversely affect exports of European, Chinese and Japanese paper and other items from here to CLV. Imports of staples from CLV, too, would decline if Japan buys more beans, woodoil, oilseeds and other staples direct from these states.

Trade with South Korea

In the local market last year Korea remained the number one buyer for paper of European and US origins. Demand from Korea also covered rayon yarn, woollen yarn, woollen piece goods, metals, pharmaceuticals, chemicals and HK products including cotton textiles and torch. However with the exception of paper and fibre yarn, orders were limited to small quantities. Exports were also handicapped by (1) Korea's lean budget for civilian imports and restriction on imports financed with US aid funds; (2) short stock here particularly in paper, pharmaceuticals and chemicals; (3) low buying offers from Seoul especially when cost of replenishment continued to rise during second half year and (4) the unreasonable delay by Seoul importers in taking delivery of goods shipped to Pusan on D/P terms. Exports last year were therefore $67 m lower than in 1955:

	Imports from Korea	Exports to Korea
	(in million HK$)	
1956	**12.2**	**125.2**
1955	10.3	192.2
Ups (+) and Downs (—) in 1956 compared with 1955	+1.9	—67.0

On the other hand, imports of Korean sea food, agar agar, gallnuts, herb medicines were slightly better than in 1955 on account of the increased demand for these items in the local market. However, during second half year, such imports already showed gradual declines because indent prices were too high.

Demand from Korea for European and US paper will remain strong this year but interest will be centred on a limited number of items. Exports would depend upon local dealers' ability to get sufficient supply from manufacturers and to keep prices attractive. The increasing volume of Japan's paper shipments to Korea, too, would adversely affect Seoul's purchases from here. Demand from Seoul for fibre yarn would decline unless dealers here could offer Italian products to Seoul at prices cheaper than Japanese goods. Demand for HK cotton yarn would depend upon HK mills' ability to quote the lowest possible prices; business

will continue to be monopolized by those mills which have branches in Seoul.

Trade with Taiwan

Exports to Taiwan totalling $47.5 m were $10.1 m higher than in 1955 but still lower than imports from Taiwan:

	Imports from Taiwan	Exports to Taiwan
	(in million HK$)	
1956	**50.5**	**47.5**
1955	40.3	37.4
Improvements in 1956 compared with 1955	+10.2	+10.1

Taipei curtailed imports of consumer goods including gunny bags and paper and banned imports of plate glass, bicycle parts, 16 types of herb medicines, cigarettes, wines and provisions, etc. to conserve foreign exchange and to protect her domestic industries. As a result, exports from here to Taiwan were limited to a selective number of items including European and US metals, pharmaceuticals, chemicals, dyestuffs and HK manufactured iron bars and paint. Imports of sugar, live hogs, fruits, garlic, feather and citronella oil were substantial last year on account of better local consumption and increased re-exports to Europe and other destinations. Demand for Taiwan live hogs, garlic and feather was so strong that supply was still short on the local market throughout the year in spite of the increased imports.

Imports this year should further increase but the rise could not be very sharp because the supply of live hogs, feather, garlic and other items available for HK is still limited on account of the increased domestic consumption in Taiwan and the heavy shipments of feather and other staples to US. Indications are that Taipei would also ship more garlic to the Philippines as well as develop more direct trade with other SE Asian countries. Taipei would continue to regulate imports from here according to her exports to the local market; purchases would be limited to metals, pharmaceuticals, machinery and equipment, dyestuffs and other industrial supplies.

Trade with the Philippines

Exports to the Philippines declined to $47 m from $53.1 m for the previous year due to Manila's increased imports from Japan under reparation arrangements; intensified imports from US; and the restricting of trade with HK mostly to barter transactions. Furthermore, import regulations there designed to protect Philippine domestic industries and to prohibit the entry of Communist goods, handicapped any possible development and limited exports from here to a selective number of HK products and re-exports of Japanese and European origins. Many prohibited items were first shipped from here to North Borneo and then smuggled into the southern Philippines. Invisible trade with Manila—smuggling—is fairly large and results in a growing favourable trade balance for Hongkong. The official trade figures, however, showed that HK's surplus in trade with the Philippines dropped from $44.9 m in 1955 to only $12.3 m last year:

HK-Philippine Trade

	Imports	Exports	Surplus
1956	**34.7**	**47.0**	**+12.3**
1955	8.2	53.1	+44.9
Ups (+) and Downs (—) in 1956 compared with 1955	+26.5	—6.1	

Nevertheless, exports particularly consignments of HK products were slightly better during second half year because HK imported more Philippine sugar, fruits, ground kernel, rice bran and other staples during the same period. About 50% of exports consisted of HK manufactured cloth, towel, metalware, plastic goods, shirts and garments; Japanese and European paper, industrial chemicals and textiles constituted the other half.

Trade this year would still be handicapped by above restrictions. Exports would therefore depend upon HK's purchases of sugar, coconut oil, and other staples from Manila. In view of the increasing volume of Philippines' trade with Japan, Taiwan and US, demand from Manila will largely be confined to local manufactures and, perhaps, to European pharmaceuticals, chemicals, metals and other industrial supplies.

Trade with Burma

Rangoon curtailed purchases from here during first half year because Peking shipped to Burma large quantities of light industrial products and foodstuffs together with spindles and looms for Burma's textile industry which China was helping to develop. Imports of rice from Burma were insignificant because Rangoon sent large consignments to China. Imports of beans, oilseeds and other staples however increased and as a result, imports from Burma at $21.9 m were 100% higher than exports to Burma which totalled only $10.7 m.

During second half year, exports improved to a volume which almost doubled that for the first six months. It was believed that authorities in Burma were not happy with the way Peking dumped Burmese rice to Ceylon and after the bitter experience over the border dispute, Rangoon turned again to non-Communist countries for economic help and trade. HK therefore enjoyed better demand from Burma for Chinese foodstuffs, HK cotton textiles and other supplies. Imports on the other hand dropped from $21.9 m in first half year to $13.6 in second half chiefly due to curtailed supply of beans, oilseeds and other staples on account of the increased volume of direct trade between Japan and Burma. The rise in exports and drop in imports during second half year enabled HK to cut the trade deficit to $3.9 m last year from $9.7 m for 1955:

HK-Burma Trade

(in million HK$)

	Imports	Exports	Deficit
1956	**35.5**	**31.6**	**—3.9**
1955	34.9	25.2	—9.7
Improvements in 1956 compared with 1955	+0.6	+6.4	

Contrary to the improvement in total exports to Burma, shipments of HK products to that market further declined to $6.6 m from $11.9 m in 1955. This was caused by the growth of various industries in Burma with technical and financial aid from Japan, US and China.

Under these circumstances, improvements in exports of HK products to Burma would depend upon the ability of HK manufacturers to offer items which Burmese industries are not producing. Furthermore, the quality should be better than Chinese products and prices cheaper than Japanese goods. On the other hand, there should be better demand from Burma this year for paper, pharmaceuticals and fine chemicals, equipment, machinery and other industrial supplies of UK, US, European and other origins.

Trade with Other Countries

(in million HK$)

	Imports		Exports	
	1956	1955	1956	1955
Br. W. Africa	—	—	63.9	53.8
Br. C. Africa	4.3	1.4	14.3	16.6
Br. E. Africa	55.6	44.8	33.5	36.8
South Africa	32.0	26.3	29.5	23.9
Africa, N.S.	1.9	6.7	57.1	55.9
Australia	100.3	81.5	55.0	53.4
North Borneo	39.9	40.6	48.8	29.5
India	51.0	83.8	21.5	20.9
Pakistan	98.1	53.9	5.3	5.0
Ceylon	4.1	4.9	14.8	13.3
Canada	46.3	46.3	29.3	28.9
C. America	2.1	13.5	57.1	55.9
S. America	58.0	22.2	23.6	19.3
Egypt	6.1	2.1	2.1	3.2
Middle & Near East, N.S.	51.9	25.5	33.5	27.9

N.S.—Not specified.

Imports from **Africa** came mainly from South Africa and British East Africa and consisted chiefly of cotton, coffee beans, canned beef, cow hide, fruits, groundnut, tobacco and ivory. Exports went mostly to British West Africa which registered a slight improvement last year. Exports to South Africa, too, increased but exports to British Central and East Africa were lower than in 1955. HK products constituted the major portion of exports to these countries and registered corresponding ups and downs last year.

There is room for further expansion of African markets for HK products because demand for textiles, rubber footwear, plastic goods, cement, shirts, enamelware and other metal products from these countries, particularly from West and South Africa, remained strong. On the other hand, competition from Japanese and Chinese goods especially in Central and East Africa is growing and HK manufacturers must make their products more attractive both in quality and in price to retain these markets.

Australia remained the No. 1 supplier for frozen meat last year and shipped here 3,018 long tons which is almost 50% of HK's total frozen meat imports. Other imports from Australia included wooltops, woollen yarn, wheat and flour, fruits and dairy products. Exports improved slightly to $55 m from $53.4 m in 1955. However, compared with imports at $100.3 m, the figure is satisfactory. Furthermore, shipments of HK products constituted only about 35% of the total exports. HK should be able to market more local manufactures such as textiles, garments, footwear, shirts, torch and other items to Australia in addition to exports of Chinese embroideries, teakwood chest, drawn lace work, woodoil and other staples.

Imports of timber, coconuts and oil, rattan, firewood, scrap iron, rubber from **North Borneo** remained at 1955 level. Exports, however, improved from $29.5 m in 1955 to $48.8 m last year on account of the increased shipments of textiles, knitwear, metalware, wheat flour, sugar, foodstuffs, cement, window glass, structural steel and other building materials. It was believed that parts of these consignments went from North Borneo to the Philippines. There would not be much fluctuation in trade with North Borneo as long as the present trend continues.

Imports from India dropped from $83.8 m in 1955 to $51 m last year; shipments of cotton and yarn to the local market were curtailed on account of the increased domestic demand in India and keen competition from Pakistan products. Exports improved slightly with better demand from India for China produce and HK products but HK still had a trade deficit of $29.5 m. The deficit in trade with **Pakistan** was even greater: imports totalled $98.1 m but exports amounted to only $5.3 m leaving a difference of $92.8 m. The rise of $44.2 m in imports from Pakistan last year was mainly due to increased demand here for Pakistan yarn which was much cheaper than local products. Large quantities of this item continue to reach here this year and there is no indication that this might decline in the near future. Prospects for further improvements in exports of China produce and HK manufactures to India and Pakistan are dull on account of the increased volume of China's direct trade with these two countries and the steady growth of their domestic industries.

Trade with **Ceylon** last year remained at the 1955 level. Principal imports were tea, coconut oil, and coconut. Exports to Ceylon consisted chiefly of Chinese paper, window glass, chilli and other staples as well as about 35% of HK products including cotton cloth, knitwear, rubber footwear, enamelware, shirts, torch, plastic products and hurricane lantern. In view of the strong commercial tie which Colombo maintains with Peking there is not much possibility for HK to sell more Chinese products to Ceylon. Exports of HK manufactures to Ceylon last year dropped by $1.2 m from 1955 level in spite of the slight increase in total export. It seems unlikely that the record for 1957 could be much better.

Imports from and exports to **Canada** remained at the 1955 level. However, shipments of HK products to Canada dipped by 40% to only $6.6 m last year. This was partly caused by the shipments of inferior goods to Canada by a number of unscrupulous exporters in 1955. The drop in exports of HK products reflects the increased demand from Canada for walnut meat, cassia and other China produce. Demand for HK products could be stimulated if factories here with the cooperation of responsible exporters could keep their products up to samples and in addition to established items such as gloves and footwear, offer more items—shirts, knitwear, rattan furniture—to consumers there. Imports of newsprint, wheat, aluminum ingot and machinery this year should not be lower than in 1956 but imports of wheat flour will further dip because HK products are getting more popular not only in the local market but also in exports to SE Asia.

Imports from **South America** came mostly from Brazil and consisted chiefly of cotton. Exports to **Central** and **South America** were slightly better than 1955; principal items were foodstuffs, cassia and other China produce, cotton textiles, enamelware, torch, aluminum ware, plastic products, firecrackers and other HK manufactures. Imports of cotton in 1957 from Brazil will depend upon the demand from Korea and SE Asia for cotton textiles which should improve with these countries getting more US aid this year. Export of HK products is improving and there is still much room for further expansion; factories here should do more market research and promotion in these territories.

Imports of cotton from **Egypt** also increased last year but exports of HK cotton textiles to Egypt declined under keen competition from Japan and on account of China's political trade with Egypt. **Middle and Near Eastern** countries shipped more cotton to HK and in return, bought more HK products and Chinese light industrial products (silk piecegoods, embroideries, drawn lace work, etc.). There were exaggerated reports that the Suez crisis had resulted in HK industries losing about $10 m worth of orders from Middle and Near East during November. Actually, monthly

average export to these countries was only $3 m. Furthermore, shipments to Aden and other Middle and Near Eastern ports were suspended only for about a month and resumed in December to clear up all the cargoes accumulated here for these destinations. Exports to Egypt this year would remain low on account of Egypt's heavy commitments with China. However, there are good prospects for exporting more HK manufactures as well as Chinese staples and light industrial products to Middle and Near East.

The Outlook

Imports from China will remain heavy in foodstuffs but uncertain in popular staples such as beans and light industrial products including paper and cement. **China's purchases** from here will be unpredictable and would largely be governed by price levels in the local market. **Demand from Japan** for China produce will further decline but exports of scrap iron and iron ore to Japan will remain substantial. **Demand from Europe, UK, Canada and Australia** for feather, vegetable oils and oilseeds will have to be met with supplies chiefly from SE Asia and the volume would decline if UK and Europe could get more supply direct from China. **SE Asia** will buy less foodstuffs and other Chinese products including dried chilli, garlic, paper, window glass from here but **demand from SE Asia** as well as from **Korea** and **Taiwan** for metals, paper, chemicals, pharmaceuticals, machinery and equipment and other industrial supplies will remain strong in spite of Japan's increased trade with these countries.

Under these circumstances there is not much possibility of any speculative boom but commodity prices would follow a firm trend. On account of the high production cost and world shortage of steel and pulp, metals particularly structural steel, factory items, newsprint, cellophane and packing paper, will remain firm. Pharmaceuticals and chemicals were at their lowest price levels last year in spite of short stock in the local market; prices should improve this year although the rise would be fractional. Machinery and equipment and other industrial supplies of UK, US and European (especially West German) origin will enjoy better demand from SE Asia.

Capital investment in local industries will be heavy this year. Factories here will have to improve their products and increase their productivity with the help of better equipment and the adoption of improved methods in order to retain the demand from traditional markets such as UK and SE Asia; to further develop markets such as US, Canada and Africa; and to cultivate new markets in Europe, South and Central America and in the Middle and Near East.

On the whole, HK trade in 1957 would not be higher than in 1956. Neither would there be any severe setback. It will remain at a high level on account of higher world trade after relaxation in the Middle East and the possibility of a major war no longer being taken into consideration.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

U.S.$

Mar.	T.T. High	T.T. Low	Notes High	Notes Low
4	$616	615½	613⅜	613⅛
5	615⅞	615½	613¼	612¾
6	616	615½	613⅝	613
7	616½	616	614¼	613¾
8	617¼	616½	614¾	614¼
9	619½	618½	616⅞	616

D.D. rates: High 617½ Low 613½.

Trading totals: T.T. US$2,230,000; Notes cash US$320,000, forward US$1,750,000; D.D. US$330,000. The market was very quiet until the last working day, when it suddenly turned firm on the sharp drop of the cross rate in New York. In the T.T. sector, gold and general importers absorbed offers from Japan, Korea and the Philippines. In the Notes market, trading further decreased. Interest favoured sellers and netted 20 HK cents per US$1,000. Speculative positions averaged US$1½ million per day. In the D.D. sector, market was very quiet.

Indonesian Currency: As outlined in the last issue (March 7, p. 309) the rupiah has declined in free exchange markets which indicates a general deterioration of economic conditions in the Archipelago. The political situation shows as yet no signs of improvement and accordingly the value of the rupiah cannot be expected to be stabilised at even the low level of a few months ago when the Sumatran revolt had just started. There is much reluctance here and in Singapore by exchange dealers to buy rupiahs, in currency and in Djakarta accounts, as one anticipates a weak market, and banks and money exchangers want to avoid being caught with more than over-night holdings of that 'hot' currency. The buying rate for the rupiah has slipped to below HK$16 per 100 rupiahs which is about 66% below the parity. (The parity for the rupiah is US$8.81 per 100 Rp, £1= 31.72 Rp).

The black markets in Djakarta, Surabaja, Medan etc. have done large business in recent weeks and as the rate went down and confidence in the stability of the rupiah never has been strong even during the initial period of government by the coalition under Masjumi-PNI (Nationalists) leadership, there has progressed flight of capital both overseas and into gold and commodities. The authorities are unable to suppress black markets particularly so as many government officials are engaging in dishonest practices and are in collusion with black marketeers all over the country. An eventual official devaluation of the rupiah is unavoidable and if it is being done, (after political stability has been achieved and the justified claims of the Indonesian parties and peoples have been satisfied) at a rate of, say, 100 Rp=US$4, and a strict control over foreign trade is being enforced, one may once again entertain a more optimistic view of future developments in Indonesia.

The problem of today is how to compose the differences among the various peoples living in Indonesia. The key to the solution of this problem rests in the hands of President Sukarno. If he can bow to the wishes of the opposition —and most of non-Java Indonesia is against his continued ill-disguised autocratic aspirations—and cooperate with the most respected and most competent political leader of the country, Dr. Hatta, the foundation for a better future will have been laid. Outside Java the popularity of Sukarno has declined very significantly, and there are now many signs that his flirt with the communists may alienate the sympathies and the support of the hard core of Javanese stalwarts. Indonesia is in need of honest and devoted leaders but such people are discouraged to come forward and serve the nation as long as Sukarno maintains his grip and insists, through dummies, to rule. If he retired to the innocuous position of a head of state only and left the administration to men of vision, integrity and

ability, he would do his country a great service, and would live on as a great national hero who has contributed much to the emancipation of Indonesia. Everybody must know his limitations—when his usefulness is over, and this applies also to Sukarno.

Philippine peso: In spite of a favourable outlook for Philippine economic expansion and political stability—with the reelection of President Magsaysay a certainty—the free market rate of the peso remains depressed, now around HK$180 per 100 pesos (against a parity of 286, and an official selling rate of 290) which is about 37% below parity. In Manila operates a 'grey' market and the rate between peso and US$ is openly discussed and transactions at that rate are being freely reported. The exchange banks in Hongkong quote only the official rate of 34½ pesos per HK$100 (selling) which is based on the parity of 5.60 pesos to sterling. The local peso/US$ crossrate, usually in line with New York free and Manila 'grey', moves around 2.95 to 3 pesos.

Generally, the prospects in the Philippines are encouraging. Industrial activity is rising and evidence of economic progress is visible all over the country. Continued US support is assured. Politically, while there is the traditional and petty rivalry, the picture is sound and the more irresponsible and dishonest politicians are either 'reforming' or leaving the public scene. Magsaysay has remained the acknowledged leader of his people and his popularity has further grown. More experienced talent in administration is coming up. Ambitious expansion of the economy and some mismanagement in public affairs has however contributed to the adverse balance on foreign payments and this has caused fears of a possible peso devaluation. Exporting interests, who stand to profit from devaluation, have exerted pressure on the administration to consider such action but, fortunately for the people and for the general wellbeing of the nation, such pressure has been rejected and the outlook today for an unchanged peso exchange rate is favourable. The Philippines stand to lose only from devaluation, and this has been often and clearly stated by both the president of the Republic and the governor of the Central Bank. Nevertheless, weak efforts are still being made to work towards a peso devaluation.

It is necessary, in order to restore the free market value of the peso to a more justified level (say, about 2.50 pesos per US$), to induce the people to act more patriotically by curtailing consumption of foreign goods and saving on overseas expenditure such as is being lavished on travel and 'junkets'. An economic education campaign could be waged with good success in the Philippines. The vast majority of the Filipinos are law abiding and truly patriotic; and with some education and, perhaps, heightened vigilance and firm law enforcement, the wayward sector of the smuggling-travelling public can be effectively discouraged from contributing to the deterioration of the foreign exchange position of their country.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK$: Philippines 1.765—1.755, Japan 0.015—0.0149, Malaya 1.879, Vietnam 0.06173—0.0606, Laos 0.058, Cambodia 0.078, Thailand 0.2832—0.2817. Sales: Pesos 320,000, Yen 120 million, Malayan $310,00, Piastre 11 million, Kip 5 million, Rial 4 million, and Baht 3 million.

Agreed Merchant T.T. rates: Selling and buying per foreign currency unit in HK$: England 16.202—15.867, Australia 13.016—12.757, New Zealand 16.202—16.10, United States 5.818—5.735, Canada 6.0836—5.9925, India 1.216—1.205, Pakistan 1.218—1.204, Ceylon 1.219—1.207, Burma 1.216—1.205, Malaya 1.8868—1.8692. Selling per foreign currency unit in HK$: South Africa 16.236, Switzerland 1.3278, Belgium 0.11655, West Germany 1.384.

Chinese Exchange: People's Yuan notes quoted HK$1.50—1.45 per Yuan. Taiwan Dollar notes quoted HK$167—165 per thousand and remittances, 153—152.

Bank Notes: Highest and lowest rates per foreign currency unit in HK$: England 16.14—16.11, Scotland and Ireland 14.00, Australia 12.65, New Zealand 14.90—14.80, Egypt 10.00, East Africa 15.40, West Africa 13.50, South Africa 16.25, Jamaica 13.50, Fiji 10.00, India 1.19—1.189, Pakistan 0.885, Ceylon 0.98, Burma 0.54, Malaya 1.846—1.842, Canada 6.42—6.37, Cuba 5.00, Argentine 0.17, Brazil 0.07, Philippines 1.855—1.825, Switzerland 1.40. West Germany 1.38, Italy 0.0091, Belgium 0.11, Sweden 1.00, Norway 0.70, Denmark 0.77, Netherlands 1.40, France 0.015—0.0149, Vietnam 0.06825—0.0675, Laos 0.059—0.0585, Cambodia 0.079—0.078, North Borneo 1.60, Indonesia 0.1675—0.165, Thailand 0.287—0.284, Macau 0.995, Japan 0.0153—0.0152.

Gold Market

Mar.	High .945	Low .945	Macau .99
4	$267⅝	267¼	
5	267⅜	267⅛	Low 277⅛
6	267½	267¼	
7	267⅞	267⅜	
8	268⅝	267⅝	
9	269⅝	268¾	278¾ High

The opening and closing prices were 267½ and 268⅞, and the highest and lowest, 269⅝ and 267⅛. Quotations firmed towards week-end but trading remained slow. Interest favoured buyers and aggregated 52 HK cents per 10 taels of .945 fine. Business averaged 5,900 taels per day and totalled 35,400 taels for the week, in which 11,400 taels were cash dealings (1,900 taels listed and 9,500 taels arranged). Imports came from Macau and amounted to 9,000 taels; 48,000 fine ounces arrived there during the week. Exports amounted to 9,500 taels (5,500 taels to Singapore, 3,000 taels to Indonesia, and 1,000 taels to Vietnam). Differences paid for local and Macau .99 fine were HK$13 and $12 respectively per tael of .945 fine. Cross rates were US$37.73—37.70; 38,400 fine ounces contracted at 37.70 cif Macau. US double eagle old and new coins quoted HK$282 and 261 respectively per coin, English Sovereigns HK$60 per coin and Mexican gold coins HK$288 per coin.

Silver Market: 600 taels of bar silver traded at HK$5.90 per tael; 1,000 dollar coins at HK$3.78—3.77 per coin; and 500 twenty-cent coins at HK$2.92—2.90 per five coins.

HONGKONG SHARE MARKET

Trading last week remained slow and turnover dropped to $2.2 m from $2.8 m for the previous week. Speculators were quiet because fluctuations were too narrow and most dividends were not attractive. HK Lands were quiet towards weekend and closed X-All at $35.50 b; the Company pointed out that the dividend of $3.50 could not be expected next year when the amount of profit available for distribution would be divided among a larger number of shares as a result of their proposed 11 for 13 issues (9 bonus and 2 at par). One firm which has a large holding of HK Lands has been slowly unloading; some brokers believe that quotations might dip slightly. Cements were firm and the annual return calculated on $4 dividend was as high as 12.12%; there were rumours however that the Company is facing intense competition in SE Asian markets (especially in Singapore & Malaya) from Japanese and Chinese products. On the whole, most shares were steady because there was no selling pressure.

Monday: The market was quiet, turnover $390,000. **Tuesday:** Continued listless, turnover $392,000. **Wednesday:** Prices unchanged, few sales, turnover $117,000. **Thursday:** HK Lands slightly lower at $63.50, other shares fluctuated within narrow limits, turnover $943,000. **Friday:** Steady at the close, turnover $353,000. Trading lot for HK Lands increased from 100 shares to 200.

DIVIDENDS

The Chartered Bank announced a final dividend of 7½ per cent actual, subject to Income Tax, making the dividend for the year 1956 15 per cent.

The Hongkong and Yaumati Ferry Co., Ltd. announced a final dividend of $5.50 per share for preferential shares, and $5 per share for ordinary shares, in respect of the year 1956.

SINGAPORE SHARES

The local Share Market, to a certain extent still affected by the political outlook in the Middle East and by the unrest in Indonesia, was quieter with prices moving within narrow limits, but in all sections gains and losses were evenly divided.

In the Industrial Section Federal Dispensary after sales at $2.17½ and $2.16 are available now at $2.15, but Fraser & Neave Ords. were dealt in again at last week's level of $2.22½. Gammon were taken at $2.02 and $2, Hammers from $1.90 to $1.87½ cd. c.b., Hongkong Banks (Colonial) at $832 c.d., and Hume Industries Pref. at A.28/- to A.28/3. Business passed in Jackson & Co. at $1.45 with buyers over, Malayan Breweries at $2.87½ c.d., Malayan Cement from $1.63 to $1.60 c.d., Malayan Collieries at $1.00 & $1.01 and Metal Box at $1.55. McAlisters were easier with sales from $2.80 down to $2.77½ also Robinson Ords. which declined from $1.60 to $1.57½. Sime Darby were an active counter advancing with sales up to $2.30, but closed slightly below the best at $2.27½. Singapore Cold Storage also registered an improvement having been taken at $1.60, but Singapore Traction Ords. were weaker at 21/6—22/6. Straits Steamship were firmer again at $16.90 business done. Straits Times had active dealings from $3. to $3.02½ to $3.05, having buyers over at the close. Straits Traders were taken at $26.60 and United Engineer Ords. came in for heavy sales from $9.85 to $9.90 to $10 c.d. c.b. Union Insurance were placed at $501.50, Wearne Bros. in quantity from $2.86½ to $2.85 to $2.82½. Wilkinson Process at $1.75 and William Jacks at $2.85 x.d. Aokam are enquired for at $1.70, whilst Austral Amalgamated now offer at 19/- x.d. Batu Selangor changed hands at 68 cents & 69 cents. Berjuntai Tin Dredging has now absorbed Rawang Concession and Rawang Tinfields and their shares are now quoted at 12/6 12/9. Consolidated Tin Dredging were marketed at 2/4½ (Stg.) and A.3/5, Hong Fatt at $1.07, Hongkong Tin at 7/6, Killinghall from 8/- to 7/10½, Kinta Kellas at 8/9, Kuala Kampar from 37/9 to 37/6, and Kuchai and Lingui both at $2.87½. Malayan Tin now offer at 14/9, but Meru Tin after dealings at 2/4 declined to 2/2½, later improving to 2/5. Pahang Consolidated were taken at 14/7½, Petaling were a feature having extensive sales from $2.80 down to $2.75 then advancing sharply to $2.92½ on good buying support. Pungah came to business at 9/9 c.d. and Rahman Hydraulic at $1 to $1.02. Demand favoured Rantau which after earlier dealings at $1.78 hardened to $1.85 and later to $1.91½. Sungei Way saw business at $1.50 x.c.i. and Talam from $3.00 to $2.97½ c.d. Rubber shares again came in for selective buying and a moderate business passed in local Loans at quotations.

Business Done as from 23rd February to 1st March

Industrials. Federal Dispensary $2.17½ to $2.16, Fraser & Neave Ord. $2.22½, Gammons $2.02 to $2.00, Hammer & Co. $1.90 to $1.87½ cd. cb., Hume Industries 5% Cum Part Prefs. A.28/- to A.28/3, William Jacks $2.85 x.d., Jackson & Co.

Share	March 1	Last Week's Rate Highest	Last Week's Rate Lowest	Last Week's Rate Closing	Up & Down	Dividend	Annual Return (%)
HK Bank ..	1560	1565	1560	1560	steady	$80	5.13
Union Ins. ..	935	940 s	930 b	935	steady	$34	3.64
Lombard	37 b	38 n	37 b	38 n	+$1	$2	5.26
Wheelock ...	6.85	6.85	6.80	6.85	steady	75¢	10.95
HK Wharf ..	100 b	103 s	100 b	102	+$2	$4	3.92
HK Dock	49 s	48	47.75	48	—$1	$2	4.17
Provident ...	13.20	13.40	13.30	13.40	+20¢	$1	7.46
HK Land	64	64	63.50	X-All 35.50 b	—50¢	$3.50	9.86
Realty	1.425 s	1.425	1.375	1.375	—5¢	15¢	10.91
Hotel	15.50	15.30 s	14.80 b	15	—50¢	$1	6.67
Trams	23.10	23.10	XD 21.90	XD 21.90	--10¢	$1.85	8.45
Star Ferry ..	136 b	140 s	136 b	136 b	steady	$9	6.62
Yaumati	106	107 s	104 b	105	—$1	$7.50	7.14
Light	23.10	23	22.90	22.90	—20¢	$1.10	4.80
Electric	30.50	30	30	30	—50¢	$2.70	9.00
Telephone ..	23.90	24 s	23.80	23.90	steady	$1.50	6.28
Cement	32.25 b	33	32.75	33	+75¢	$4	12.12
Dairy Farm .	16.20	16.10	16 b	16.10	—10¢	$1.63	10.12
Watson	14.30	X-All 11.30	14	X-All 11.30	—20¢	$1	8.85
Yangtsze	6 n	5.90 b	5.80 b	5.85 b	—15¢	70¢	11.97
Allied Inv. ..	4.85 s	4.80 s	4.80 s	4.80 s	—5¢	25¢	5.21
HK & FE Inv.	9.75 n	10	9.70 b	9.80 b	+5¢	75¢	7.65
Amal. Rubber	1.40	1.45	1.40	1.40	steady	30¢	21.43
Textile	4.75	4.80 s	4.75	4.75 b	steady	50¢	10.53
Nanyang	8.05	8.05	8	8.05	steady	80¢	9.94

HONGKONG AND FAR EASTERN TRADE REPORTS

March 1—9, 1957

Local businessmen were optimistic over the resumption of traffic through the Suez and believed that the surcharge on freight rate for cargoes to and from Europe (including UK) would soon be discontinued. On the other hand merchants who had stocked large quantities of imports which arrived after the Suez blockade were worrying about the effects of this development on prices of their merchandise. Trading in the local commodity market during the period was particularly active in paper while imports from China, Japan, Europe and UK remained heavy.

Trade with China: Foodstuffs, fruits, and sundry provisions constituted the major portion of imports from China; in addition to frozen meat, China also shipped here quick-frozen Peking ducks which enjoyed strong demand from local restaurants. The price at $3.50 per catty was about the same as that for live ducks. On the other hand supply of paper, window glass and cement was curtailed in spite of the fact that dealers here had tried to book more. From the local market, China bought small quantities of metals when prices here reached low levels. Peking representatives in HK also negotiated with Thai merchants the purchase of 100,000 tons of Thai rice.

Trade with Japan: Imports of cement, cotton and woollen textiles, rayon and fibre yarn, electric appliances, galvanized iron sheets, eggs, window glass, etc. totalled 9,000 tons. Exports were a little over 1,000 tons; chiefly scrap iron, bone meal, china clay, beans and oilseeds. Dealers curtailed new indents because quotations for most items advanced while offers for paper, cotton textiles and cement from Japan restricted. Japan's purchases from here remained selective and in the case of scrap iron, kept counteroffers at low levels after US had lifted the ban on exports of this item.

Trade with UK and Europe: Imports of metals and consumer goods from UK and Europe totalled 4,000 tons and 8,000 tons respectively during the period. In view of the possibility of an earlier resumption of traffic through Suez Canal, dealers here postponed the booking of supplies from Europe and UK hoping that cif quotations might come down slightly in the near future. Exports to UK and Europe were slower after heavy shipments before the Chinese New Year while delivery of orders concluded during February would begin in second half of March.

Trade with US: Exports of cotton textiles, toys, rattanware, Chinese style foodstuffs and wearing apparel averaged 2,000 tons a week. Chinese musical instruments and Chinese theatrical costumes can now be shipped to US if covered by comprehensive certificates of origin.

Trade with Indonesia: Djakarta earmarked more foreign exchange for consumer goods to meet the demand during the coming Puasa Festival. However there were more enquiries than orders from Indonesia for cloth, yarn, enamelware, metals, etc. because the drop in value of rupiah had made HK products more expensive in Indonesian markets. The contract covering the purchase of HK cotton textiles (payment in US raw cotton) was still under negotiation; mills here were confident that they would get the business. To encourage exports, Djakarta increased export subsidies on tobacco leaves, permitted exports of minerals and lowered export floor price for coffee beans.

Trade with Thailand: Eight vessels brought here over 10,000 tons of rice from Bangkok in addition to consignments of beans, cow hide, timber, groundnut, maize, salt and feather. Exports totalled only about 1/10th of the import tonnage; however dealers here got more orders from Bangkok for metals, paper, pharmaceuticals, cotton yarn, enamelware, blankets and foodstuffs last week.

Trade with South Korea: Demand from Korea was keen in paper, sugar, pharmaceuticals, machinery, industrial chemicals and fertilizers because Seoul had granted more foreign exchange. Transactions in many cases, however, were handicapped by low buying offers. Orders for fertilizers, wool yarn, fibre yarn and cloth went to Japan because Japanese quotations were more attractive. The 10-15% increases in freight rates for cargoes from here to Pusan and other Korean ports, as from March 1, also made HK offers more expensive.

Trade with Taiwan: Taipei earmarked US$10 million for imports (during March and April) of industrial chemicals, milk and milk products, salt fish, woollen and rayon textiles, electric appliances, pharmaceuticals, medicinal herbs, dyestuffs, rubber, paper, photo supplies, rosin, printing and building materials, machinery and equipment, etc. There were however more enquiries than orders from Taipei during the period because cif Taiwan prices were higher than buying offers partly on account of the 10% freight increase introduced on March 1. Beginning April 1, Taiwan Navigation Company will inaugurate a weekly direct shipping service between Taiwan and the Philippines thus eliminating HK as an intermediary port between the two countries. Following an American news agency report from Taiwan that Nationalists warships and shore batteries on the offshore islands would avoid firing on British freighters bound for North China so that the Nationalists could make more friends in Britain, Taipei announced that the China coast blockade had never been rescinded.

Trade with Malaya: Exports to Penang and other Malayan ports were heavier than shipments to Singapore; principal items included joss sticks and paper, paint, cotton textiles, paper,

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$1.45, Malayan Breweries $2.87½ cd, Malayan Cement $1.63 to $1.60 cd, Malayan Collieries $1.00 to $1.01, Metal Box $1.55, McAlisters $2.80 to $2.77½, Robinson Ords. $1.60 to 1.57½, Sime Darby $2.80 to $2.27½, Singapore Cold Storage $1.60, Straits Times $3.00 to $3.05, Straits Traders $26.60, Straits Steamships $16.90, Uniteers $9.85 to $10.00 cd.cb. Union Insurance Society of Canton Ltd. $501.50, Wearne Bros. $2.86½ to $2.82½, Wilkinson Process $1.75.

Tin. Batu Selangor 68 cents to 69 cents, Hong Fatt $1.07, Kuchais $2.87½, Petaling $2.80 to $2.75 to $2.92½, Rahman Hydraulic $1.00 to $1.02, Rantau $1.78 to $1.91½, Sungei Way $1.50 x.c.i. Talam Mines $3.00 to $2.97½ c.d., Kuala Kampar 37/9 to 37/6, Pungah 9/9 cd, Tongkah Harbour 13/- to 12/9, Hongkong Tin 7/6, Kinta Kellas 8/9, Killinghall Tin 8/- to 7/10½, Meru 2/4 to 2/2½ to 2/5, Pahang Consolidated 14/7½.

Rubber. Ayer Hitam Rubber $1.12 cd, Amal. Malay $1.90 to $1.92, Beradin 2/11¼, Benta 97 cents, Bruseh Rubber 1/8⅜ to 1/9¼, Kempas $1.32, Kluang $1.27, Pajam 84 cents, Scottish Malayan Rubber 2/-, Tapahs $2.60, Sapong Rubber Estates 20/8¼, Selangor Coconuts $1.50.

Overseas Investments. British. Bowater 5% Convertible Loan £8 premium, Patersons Simons 8/6, Lloyd's Pack Warehouses 29/5¼, Shell 162/9.

Hongkong. Hongkong & Shanghai Bank (Col. Reg.) $832.00 cd.

South African. De Beers Def. (Cape Register) 99/-.

Australian. Ampol Exploration A.13/1½, Burns Philp A.59/-, Containers Ltd. A.24/3 John Fairfax A.20/-, Oil Search A.10/-, Swan Breweries A.9/7, Vesta A.17/3.

canned food and provisions. Demand from Singapore for sugar weakened because Taiwan and India both offered to ship this item direct to Singapore.

Trade with the Philippines: Imports of sugar, mangoes, coconut, rice bran and groundnut were heavy last week; merchants in Manila rushed shipments to HK before the expiration of barter licences. Demand from Manila for metals and yarn also improved.

Trade with Cambodia, Laos and Vietnam: In spite of the fact that these states had earmarked large sums of US Aid Funds for imports of paper, cloth, industrial chemicals, and other essentials, purchases from the local market were restricted to selective items and small quantities. Imports of maize, beans, bone meal, scrap iron, sesame and other staples from Cambodia and South Vietnam totalled 1,500 tons. North Vietnam sent here several shipments of woodoil, feathers, cassia, herb medicines; in return, bought from the local market, gunny bags, window glass, wire nails, paper and plastic products.

Trade with Burma: Private-State joint purchasing organization in Rangoon earmarked 64 million kyat for imports of metals, cotton textiles, foodstuffs etc. Rangoon also relaxed import restrictions on industrial supplies and equipment including spinning and weaving machinery. Exporters here received more orders from Burma for old newspaper, cotton textile, motors, paper, and sundries.

Trade with Ceylon remained quiet. One vessel left here for Colombo last week with 400 tons of enamelware, cotton textiles, chilli and other Chinese produce covered by previous orders.

Trade with India & Pakistan: Imports of cotton yarn from Pakistan remained heavy. Imports from India consisted chiefly of cotton, cloth, gunny bags and shellac. From the local market India bought metals, paper and cassia while Pakistan mainly interested in cassia.

Trade with Africa: About 2,000 tons of enamelware, vacuum flasks, hurricane lantern, cotton textiles, foodstuffs and window glass were shipped to various African markets. French West Africa also bought grey and dyed cloth from the local market while British East Africa favoured shirts and umbrella in addition to cotton textiles and metalwares. Competition from Japanese products in these markets intensified. Imports came chiefly from South Africa; principal items were groundnut oil, canned beef, fruits, tanning extract and other chemicals.

Trade with North Borneo: Imports of scrap iron totalled 500 tons last week. In return, HK sent there about 500 tons of building materials and provisions. Shipping companies were considering to increase HK-Borneo freight rates by about 10% as from March 15, 1957.

Trade with Australia: In view of the growing volume of trade between HK and Australia, Japanese shipping companies were considering to put more ships on Japan-HK-Australia runs. Orders reached here from Australia last

week covered chiefly China produce and HK cotton textiles.

Trade with the Middle East: Orders from Aden and other M.E. ports were mostly for Chinese foodstuffs and HK manufactures including tea, ginger, enamelware, torch and batteries, underwears and cotton textiles.

China Produce: Demand from Japan and other sources remained selective. Cassia retained keen interest from India and Pakistan. Sesame eased under arrivals from Cambodia and South Vietnam; later recovered on orders from Japan. Groundnut of Chinese origin was short but supply from Manila and Bangkok substantial; Japan, Canada and local food manufacturers were buyers. Woodoil forwards retained demand from Australia, Japan and local paint factories. Rosin firm on orders from Thailand, Cambodia, Indonesia and Europe. Singapore provided strong demand for chilli and red beans. Europe also absorbed bamboo cane, hog bristle, feather; Indonesia took alum; Thailand wanted green pea; US bought local graphite; India enquired for realgar. Supply of beans and oilseeds from China remained difficult; prospects doubtful.

Metals: US lifted ban on export of scrap metals to Japan; prices for scrap iron in the local market eased. China keen in steel bars, wire rod, black plate, tinplate waste waste, steel plate, zinc and lead ingots but many transactions fell through because buying offers too low. Quotations here for bars, black plate and mild steel plate were lower on account of marked-down UK indents but dips not sharp. There was also demand from Okinawa and Thailand for iron pipe; from Taiwan for steel plate and iron pipe; from Korea for steel wire rope; from the Philippines for steel plate; and from Indonesia for galvanized iron sheets, both plain and corrugated. Trading volume however was small because buying offers were generally very low while dealers were not anxious to sell stocks at a loss.

Paper: Demand from various sources, particularly from Korea was very strong and in view of the short stock situation, dealers here booked newsprints, glassine, woodfree, duplex board, flint, aluminum foil, manifold from Europe; straw board from Taiwan; and manifold from China in spite of the increased indents. Prices were very firm especially when imports from China and Japan curtailed.

Industrial Chemicals: Quiet condition prevailed. There were more enquiries than orders from Taiwan for sodium hydrosulphite, shellac, rongalite C lump, linseed oil, potassium bichromate, iron oxide; from Korea for sodium bicarbonate, tanning extract, caustic soda; from Cambodia for sulphuric acid, glycerine; and from China for gum arabic. Prices steady on short stock and high replenishment cost.

Pharmaceuticals: Demand from Korea, Taiwan, SE Asia stimulated the market and encouraged speculative buying in popular items including penicillin tablets, dihydrostreptomycin, sulfadiazine powder, aspirin powder, caffeine alkaloid and vitamins. Prices firm. Trading volume limited by short stock.

Cotton Yarn and Cloth: HK yarn and cloth very firm on demand from Australia, Indonesia, Thailand, Philippines in addition to orders from UK and Malaya; transactions were chiefly in forwards. Pakistan yarn first improved on marked-up indents and demand from Thailand but later eased when large quantities continued to flood the local market. Chinese drill popular with local garment factories and grey cloth firm on orders from local dyeworks. Japanese grey steady on enquiries from Indonesia; white shirting firm on local demand.

Rice: Thai whole, firm—cost up, demand steady. Thai broken, down—heavy arrival, cost lower. HK and Chinese products, firm. Import quotas for first quarter were almost used up.

Wheat Flour: HK flour made from American wheat up from $14.80 to $15.10 per 50-lb bag. Other brands unchanged. US and Canadian products firm on high cost. Australian flour steady.

Sugar: Taiwan granulated depressed by heavy arrival; later recovered on speculative stimulation and enquiries from Singapore. Taiwan brown and Philippine brown weak under heavy supply; Korea favoured this item but purchases were not substantial. Japanese fine firm on steady local demand, cost also up. HK products, very firm.

Cement: Japanese forwards up to $121 per ton cif HK; spot goods at $121.50 ex-ship in spite of improved supply situation. Chinese cement firm at $118 per ton ex-ship, supply short and difficult. HK products retained strong local demand.

Window Glass: In addition to orders from North Borneo and Africa, there were also enquiries from UK and Canada for Chinese window glass. Dealers here however could not get enough offers from the mainland because Peking was sending increasing quantities of this item direct to SE Asia. Demand from Korea was restricted to European goods.

Blanket: Chinese cotton blankets were favoured by Thailand. Prices were slightly cheaper than Japanese products.

Fresh Hen Eggs: Supply from China improved and retail prices here returned to $1 for 6 pcs, medium size. Wholesale prices were $167 per 40-kilo package, Shanghai eggs; $110 per 50-kilo crate, Hengyang eggs; $200 per 500-pc crate, Hupeh A grade.

Hongkong Products: UK importers suspended orders for HK rubber footwear in anticipation of drop in rubber price. Export prices for preserved ginger were up 10-11%, demand over supply. Norway relaxed import restrictions on HK manufactured shirts, cotton textiles, rubber footwear, umbrella, torch, etc.